



**AGENDA**  
**TOWN COUNCIL SPECIAL MEETING / BUDGET WORK SESSION**  
**MARCH 30, 2017, 7:00 PM**  
**TOWN HALL COUNCIL CHAMBERS**

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- 1. CALL TO ORDER OF SPECIAL MEETING / BUDGET WORK SESSION**  
(Mayor Fraser)
- 2. PLEDGE OF ALLEGIANCE**
- 3. FY 2018 BUDGET WORK SESSION** (Town Council)
  - a. Discussion of Water Fund (pgs. 164-173)
    - i) Revenues (pg. 164)
      - a) Fees
      - b) Availabilities
      - c) “Green Box” or Other
    - ii) Expenditures (pgs. 170-173)
  - b. Discussion of Wastewater Fund (pgs. 174-183)
    - i) Revenues (pg. 174)
      - a) Fees
      - b) Availabilities
      - c) “Green Box” or Other
    - ii) Expenditures (pgs. 180-183)
  - c. Utility Rates and Fees (pgs. 292-295)
  - d. Discussion of Chargeback Process and Methodology (see materials)
- 4. DISCUSSION OF STAFF MEMOS AND COUNCIL QUESTIONS**
- 5. DISCUSSION OF OTHER FUNDS** (if needed)
- 6. AMENDMENT/REVIEW OF UPCOMING BUDGET SCHEDULE** (Town Council)
  - a. Next Meeting: April 4, 2017 – 7:00pm
- 7. ADJOURNMENT**

\*Roll Call Votes

IF YOU REQUIRE ANY TYPE OF REASONABLE ACCOMMODATION AS A RESULT OF PHYSICAL, SENSORY OR MENTAL DISABILITY IN ORDER TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT DIANA HAYS, TOWN CLERK, AT 540-338-7421. THREE DAYS NOTICE IS REQUESTED.

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**TOWN COUNCIL SPECIAL MEETING / BUDGET WORK SESSION  
MARCH 30, 2017, 7:00 PM  
TOWN HALL COUNCIL CHAMBERS  
COVER MEMO**

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The following materials are provided as part of the discussion at the March 30<sup>th</sup> Budget Work Session. Materials include:

- Memo – Structural Balance of Enterprise Funds (pgs. 5-45)
- Memo – Chargeback Analysis and Breakdown (pgs. 47-53)
- Memo – Transfer of Revenue between Funds (pgs. 55-58)
- Memo – Ideas for “Green Box” Revenues for Enterprise Funds  
*(will be handed out at meeting)*
- Memo – Scenarios of Water/Sewer Rates  
*(will be emailed ahead of meeting)*
- Council Questions: Response Packet #1 (pgs. 59-61)

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**Town Manager**  
Robert W. Lohr, Jr.

**Assistant Town Manager**  
Daniel C. Davis

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**Town Attorney**  
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**Chief of Police**  
Cynthia A. McAlister

**Department Directors**  
Elizabeth Krens, Finance  
Alex Vanegas, Public Works  
Patrick Sullivan, Community Development  
Shannon Bohince, Information Technology  
Hooper McCann, Administration

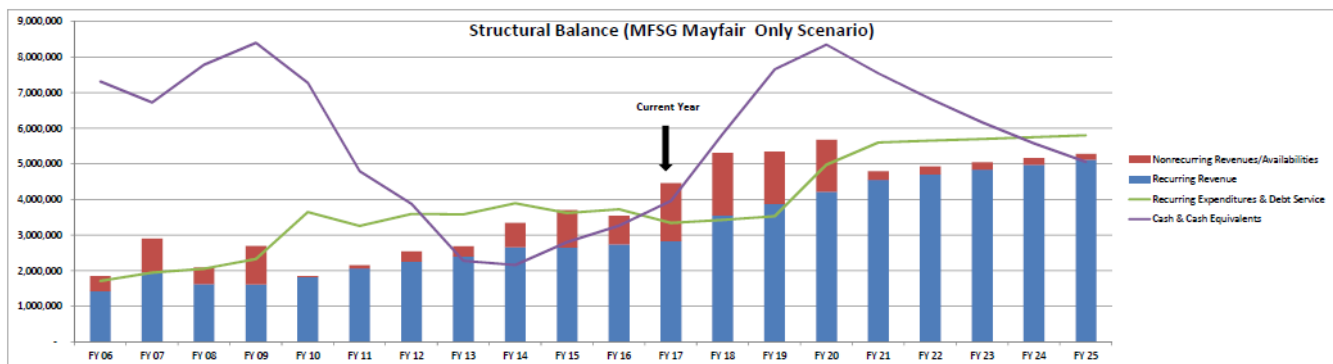
## MEMORANDUM

**TO:** TOWN COUNCIL  
**FROM:** ROB LOHR, TOWN MANAGER  
LIZ KRENS, DIRECTOR OF FINANCE  
**SUBJECT:** STRUCTURAL BALANCE OF ENTERPRISE FUNDS  
**DATE:** MARCH 29, 2017

In conversations with the Town Council about the budget and utility funds, we want to ensure that Council has all the necessary information to make informed decisions. In individual discussions with some Council members, we have realized that we can do a better job providing information about the basic financial aspects of our utility funds, their current financial status, and long-term projections.

The Finance Department produces an annual document of the Town's Financial Trends (see Attachment 1). This document shows the historical and future statuses of the General Fund, Water Fund, and Wastewater Fund. For the purposes of this memo, we will focus on the Water and Wastewater Funds.

Perhaps the most complex, and informative, chart in this document is what we refer to as the "Structural Balance" chart. This is found on pages 19 (Water) and 28 (Wastewater): we will focus specifically on Wastewater at this time.



There are four key pieces of information depicted in the chart on the above:

- Blue Bar: Recurring Revenues (rates and fees)
- Red Bar: One-Time Revenues (typically availabilities, may include other one-time revenues)
- Green Line: Recurring Expenditures (including debt service)
- Purple Line: Cash Balance

*We define a structural balance as when the recurring revenues (Blue Bar) are sufficient to cover recurring costs (Green Line). Any time that the Green Line is higher than the Blue Bar, we consider that our Fund is **not** structurally balanced. This is not dissimilar to any other company or individual that must ensure income/revenues are sufficient to cover ongoing costs/expenditures. Otherwise, you must make up the shortfall with cash (reserves), which is not desirable on a long-term basis and can lead to financial instability.*

Historically, the graph above shows a structural imbalance in FY10-FY14 where one-time revenues were almost non-existent and recurring expenditures were growing (due to debt service, primarily). As a result, the cash balance (Purple Line) in this fund dropped dramatically from FY09 to FY14 to cover the operating expenses. In fact, available cash balance was nearly \$2 million less than ongoing expenditures and the fund would have run out of cash within the next year without further action to rectify the structural imbalance. This is the reason the Council restructured the debt for Wastewater in FY13 in order to temporarily reduce annual debt service and allow the Town an opportunity to raise rates incrementally to handle ongoing costs and future increases in debt service.

Looking at current year – FY17 – you will see that recurring revenues (Blue Bar) do not reach the level of recurring expenditures. In other words, in the current year, the Fund is not structurally balanced. The fund is being balanced by one time availability revenue (Red Bar) – by approximately \$1.1 million. Again, this amount is primarily due to debt service requirements.

As demonstrated in the chart, the recurring revenues (rates and fees) need to continue to grow to account for the loss of availability revenue beginning in FY21 and the increase in debt payments in FY20/21. However, even with the growth in recurring revenue, the chart shows that the Fund will continue to be structurally imbalanced for the foreseeable future, requiring use of cash reserves to balance the budget each year. You will also see that the Purple Line grows to a high amount of cash balance in FY20 due to collection of one time availability revenue. Excess cash is available as a capital project funding source, a one-time need and appropriate use of cash reserves, or use in balancing the budget on a limited basis.

#### *MANAGING THE STRUCTURAL BALANCE*

There are multiple ways to develop structural balance in the Wastewater Fund:

- Reduce recurring expenditures:
  - Reduce debt service by restructuring debt (pushes debt further out)
  - Reduce Chargeback incrementally
  - Look at other operational efficiencies
- Increase recurring revenues:
  - “Green Box” alternative revenue sources
  - Transfer funds from other funding sources (meals tax, etc)
  - Rates and Fees
- Generate other one-time revenue:
  - Availabilities
  - Creative one-time revenues (sales of property, etc)

With a creative balance of expenditure reduction and revenue growth, the Town can achieve its goal of structural balance. Based on the models developed by the Town’s Financial Advisor and Rate Consultant, approximately \$1.1 million of new revenue/cost savings is needed starting in FY21 to keep user rate increases at a minimum.

Opportunities exists for the Town Council to incrementally build additional revenues starting in FY18 and beyond (ie: revenue transfers, rate increases, sale of assets). Town Council may also consider expenditure reductions (ie: incremental reduction in Utility Chargeback). By a strategic combination of a series of changes, the Council can likely achieve this goal. In addition, to give Council time to look at all options, the Council may wish to reduce or eliminate any rate increases for FY18 while it develops a multi-year plan to achieve these other revenue and cost saving measures.

#### *FUTURE OF ENTERPRISE FUNDS*

The Enterprise Funds are on solid footing and will continue to be strong as the Town Council proactively explores future opportunities. To be clear, the Enterprise Funds are not going to go insolvent or bankrupt. However, the need for a combination of additional revenue and cost savings is clear to continue the strength and structural balance of these funds into the future. As the Town Council undertakes this long-term planning process, staff is prepared to assist in these efforts to achieve Council's goals.

#### *ATTACHMENT*



## **Financial Graphs and Trend Data**

FY 06 through FY 16

Prepared by Finance Department  
February 2017



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## Governmental Funds

- **Assumptions:**

These graphs have been modified to better reflect ongoing operating revenues and expenditures.

Non-recurring revenue sources such as Loudoun County Settlement and Sale of Old Town Hall have been excluded from graphs to provide a more accurate picture of on-going revenue sources.

Loudoun County Settlement: FY09 \$1,780,000, FY 10 \$2,000,000  
and FY 11 \$2,000,000.

Sale of Old Town Hall: FY 11 \$1,259,700

In FY 13 and FY 14, amounts related to debt refundings have been excluded.

All Capital Projects revenues and expenditures have been excluded from the operating graphs.

Utility chargeback is not shown as revenue but rather deducted from expenditures as this account is used to allocated personnel and other costs paid out of the General Fund to support activity in the Utility Funds.

Combined Governmental Funds (General Fund and Parks & Rec.) Parks and Recreation was part of the General Fund until it was separated in FY 12.

- **Major Rate Changes:**

In FY 13 Meals Tax rate was increased 1% (\$440k), Fireman's Field Service Tax (\$173k) was added and Loudoun County Gas Tax was reinstated (\$238k).

In FY 11 Cigarette tax was raised from \$0.50 to \$0.65.

- **Revenue Categories**

General Property Taxes: Real Estate, Personal Property and Fireman's Field Special Tax

Other Local Taxes: State Sales Tax, Cigarette, Business License, Utility License, Bank Franchise, Cable Grant, Meals Tax and Auto Decals

Other Local Revenue: Zoning Fees, Police Fines, Sale of Surplus, Interest, Community Events Sign, Garden Plot Fees, Product Sales, Miscellaneous and Public Works Charges to Others.

Intergovernmental - County: Gasoline Tax

- **Revenue Categories (cont'd)**

Intergovernmental - State: Communications Tax, Personal Property Tax Relief, Aid to Police, Fire Program, Highway Maintenance and Litter Grant.

Intergovernmental - Federal: Bab Subsidy, PD Grants and Community Block Grants.

- **Basis of Accounting**

The General Fund and the Parks and Recreation Fund use the modified accrual basis of accounting. Modified accrual is a basis of accounting where revenue is recorded when measurable and available, and expenditures are recorded when made.

Differences include:

No depreciation.

Debt Service shown includes principal and interest portions of payments.

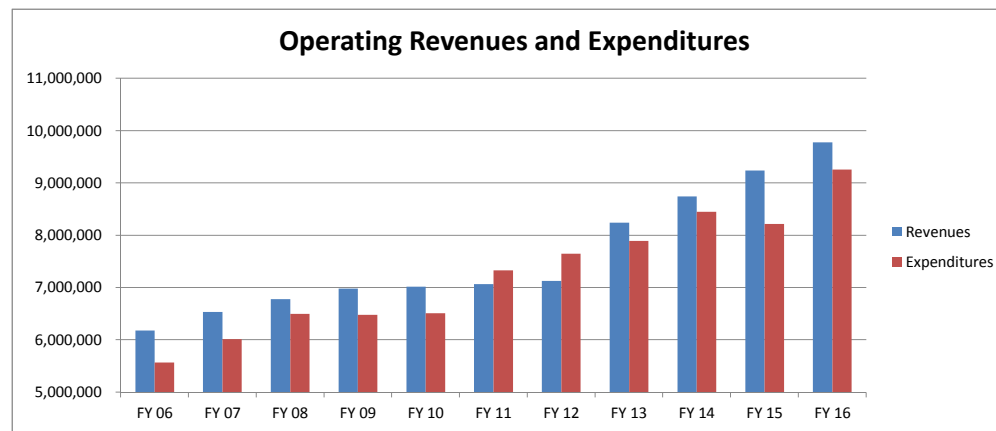
- **Data Source**

Comprehensive Annual Financial Report

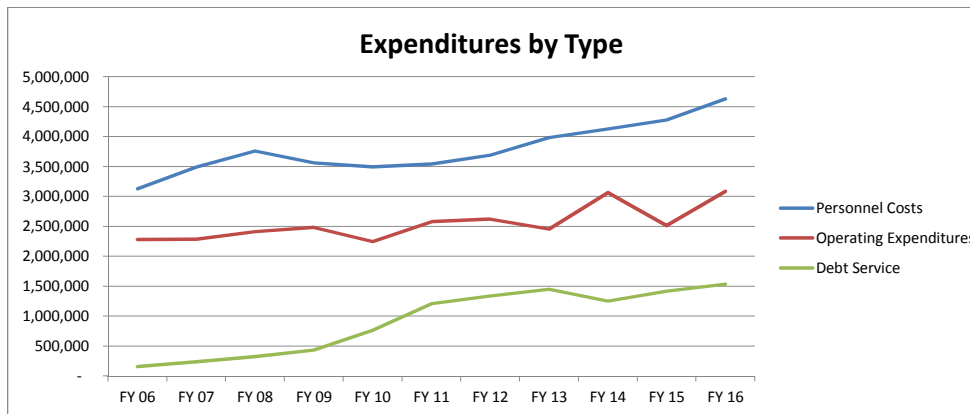
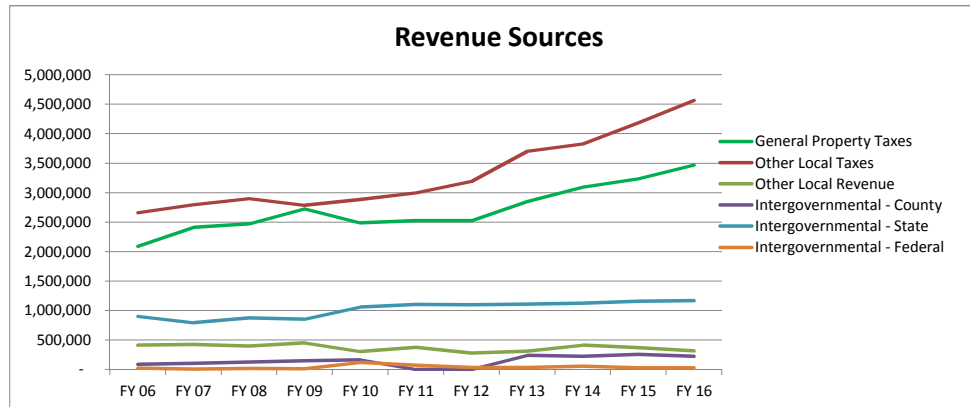
## Governmental Funds Overview: Operating Revenues and Expenditures

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
<b>Revenues</b>											
General Property Taxes	2,092,568	2,409,596	2,469,194	2,728,737	2,487,151	2,526,828	2,526,297	2,850,968	3,095,888	3,239,133	3,472,962
Other Local Taxes	2,659,820	2,799,546	2,898,002	2,787,900	2,881,876	2,996,580	3,191,608	3,705,243	3,829,675	4,186,769	4,567,328
Other Local Revenue	412,925	424,754	395,792	452,364	306,607	374,145	275,344	310,023	412,087	371,568	314,791
Intergovernmental - County	89,500	104,000	126,000	150,000	165,000	-	-	237,739	222,228	253,365	223,147
Intergovernmental - State	900,310	794,179	875,612	853,572	1,058,896	1,100,628	1,098,017	1,105,836	1,125,299	1,159,502	1,169,923
Intergovernmental - Federal	23,626	4,205	15,533	9,794	121,417	70,937	34,404	34,404	56,501	29,792	28,642
<b>Total Recurring Operating Revenues</b>	<b>6,178,749</b>	<b>6,536,280</b>	<b>6,780,133</b>	<b>6,982,367</b>	<b>7,020,947</b>	<b>7,069,118</b>	<b>7,125,670</b>	<b>8,244,213</b>	<b>8,741,678</b>	<b>9,240,129</b>	<b>9,776,793</b>
Percent Change Year to Year		6%	4%	3%	1%	1%	1%	16%	6%	6%	6%
<b>Expenditures</b>											
Personnel Costs	3,131,941	3,492,457	3,758,390	3,561,712	3,492,447	3,541,603	3,689,377	3,985,988	4,128,757	4,281,122	4,631,055
Operating Expenses	2,277,126	2,282,474	2,413,764	2,484,077	2,248,007	2,578,298	2,619,481	2,454,046	3,066,969	2,514,994	3,088,756
Debt Service	158,615	239,538	324,324	435,355	767,605	1,210,890	1,338,294	1,451,122	1,255,564	1,419,855	1,535,822
<b>Operating Expenditures Less Chargeback</b>	<b>5,567,682</b>	<b>6,014,469</b>	<b>6,496,478</b>	<b>6,481,144</b>	<b>6,508,059</b>	<b>7,330,790</b>	<b>7,647,152</b>	<b>7,891,156</b>	<b>8,451,290</b>	<b>8,215,971</b>	<b>9,255,633</b>
Percent Change Year to Year		8%	8%	0%	0%	13%	4%	3%	7%	-3%	13%

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 15
<b>Revenues</b>											
General Property Taxes	34%	37%	36%	39%	35%	36%	35%	35%	35%	35%	36%
Other Local Taxes	43%	43%	43%	40%	41%	42%	45%	45%	44%	45%	47%
Other Local Revenue	7%	6%	6%	6%	4%	5%	4%	4%	5%	4%	3%
Intergovernmental - County	1%	2%	2%	2%	2%	0%	0%	3%	3%	3%	2%
Intergovernmental - State	15%	12%	13%	12%	15%	16%	15%	13%	13%	13%	12%
Intergovernmental - Federal	0%	0%	0%	0%	2%	1%	0%	0%	1%	0%	0%
<b>Total Recurring Operating Revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Expenditures</b>											
Personnel Costs	56%	58%	58%	55%	54%	48%	48%	51%	49%	52%	50%
Operating Expenses	41%	38%	37%	38%	35%	35%	34%	31%	36%	31%	33%
Debt Service	3%	4%	5%	7%	12%	17%	18%	18%	15%	17%	17%
<b>Operating Expenditures Less Chargeback</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

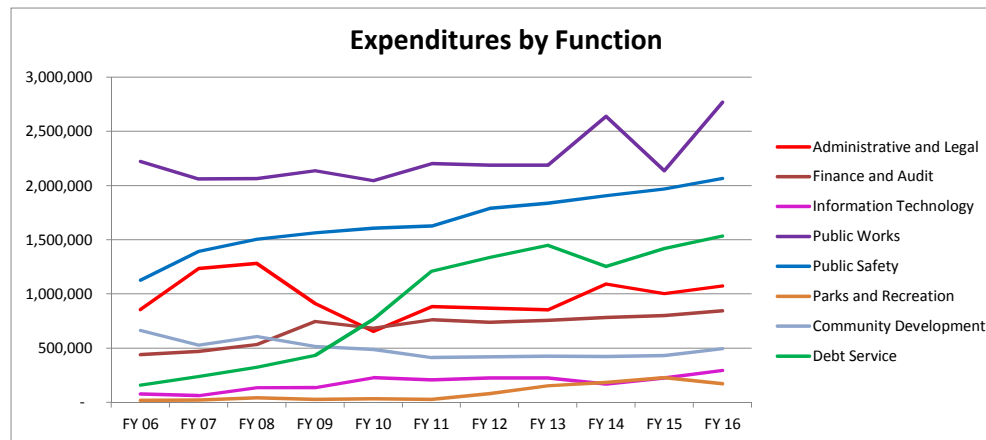


## Governmental Funds Overview: Operating Revenues and Expenditures (Cont'd)



## Governmental Funds Operating Expenditures by Function

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
Administrative and Legal	856,032	1,234,505	1,282,402	913,506	654,758	882,214	869,449	854,031	1,093,743	1,004,200	1,075,552
Finance and Audit	439,557	469,580	534,150	747,361	685,399	761,550	738,857	755,263	783,049	800,167	845,832
Information Technology	76,969	62,700	136,649	135,635	227,584	206,679	223,739	224,531	166,936	225,775	295,225
Public Works	2,224,298	2,062,781	2,063,848	2,138,330	2,046,232	2,204,109	2,187,415	2,188,667	2,640,864	2,138,676	2,769,349
Public Safety	1,128,938	1,393,867	1,506,641	1,566,094	1,606,485	1,626,498	1,788,562	1,838,119	1,906,858	1,968,590	2,068,546
Parks and Recreation	17,806	21,720	41,174	27,794	33,063	26,800	80,475	153,330	183,440	227,434	169,803
Community Development	665,467	529,779	607,290	517,069	486,933	412,050	420,361	426,093	420,836	431,276	495,504
Debt Service	158,615	239,538	324,324	435,355	767,605	1,210,890	1,338,294	1,451,122	1,255,564	1,419,855	1,535,822
<b>Total</b>	<b>5,567,682</b>	<b>6,014,469</b>	<b>6,496,478</b>	<b>6,481,144</b>	<b>6,508,059</b>	<b>7,330,790</b>	<b>7,647,152</b>	<b>7,891,156</b>	<b>8,451,290</b>	<b>8,215,973</b>	<b>9,255,633</b>

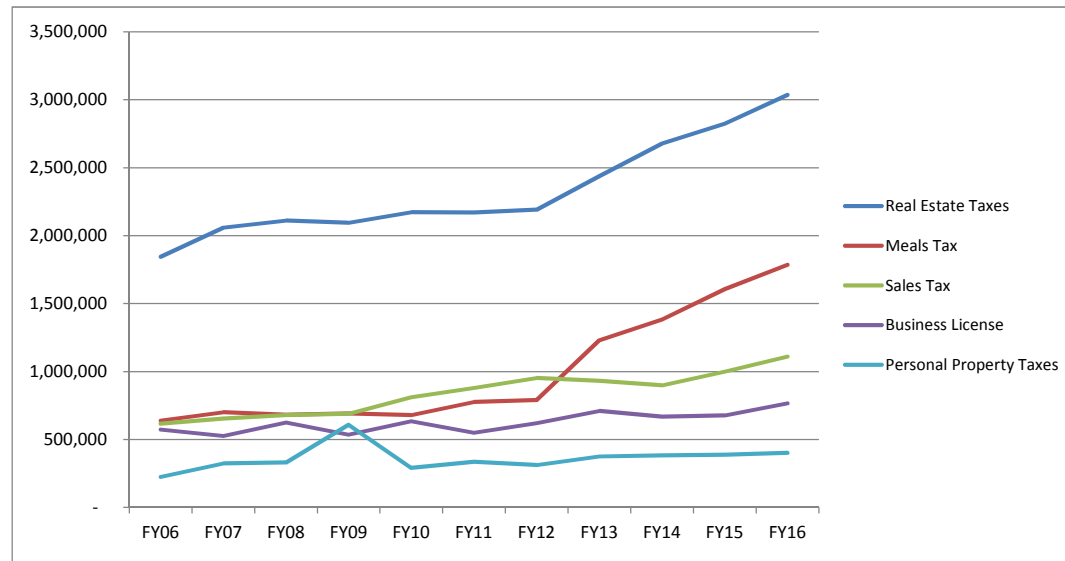


Per CAFR Schedule 2

Administrative and Legal	Includes Legislative, Admin, Legal,
Finance and Audit	Includes Finance, Auditors, Financial Advisor
Information Technology	Includes IT
Public Works	Includes Streets, Sidewalks, Buildings, Trash Collection
Public Safety	Includes Police Department and funds for Fire and Rescue
Parks and Recreation	Includes Recreation & Facilities
Community Development	Includes Planning, BAR, Tree & Beautification, Centennial Comm
Debt Service	Principal and Interest Payments for General Fund and Parks and Recreation

## Governmental Funds Top 5 Local Revenue Sources

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Real Estate Taxes	1,845,410	2,058,529	2,109,935	2,093,704	2,172,443	2,169,396	2,190,631	2,438,112	2,678,800	2,823,340	3,037,314
Meals Tax	638,441	699,300	682,534	689,856	679,083	775,398	788,948	1,229,495	1,384,194	1,607,222	1,786,932
Sales Tax	616,091	652,195	678,260	688,327	811,566	878,531	952,497	931,067	898,669	998,571	1,110,071
Business License	572,165	525,813	625,138	534,537	633,268	549,271	621,289	709,692	666,178	677,503	765,795
Personal Property Taxes	223,887	323,913	329,794	609,416	289,728	335,499	310,618	374,189	382,469	386,576	400,708



\* Data Location - CAFR Schedule 1

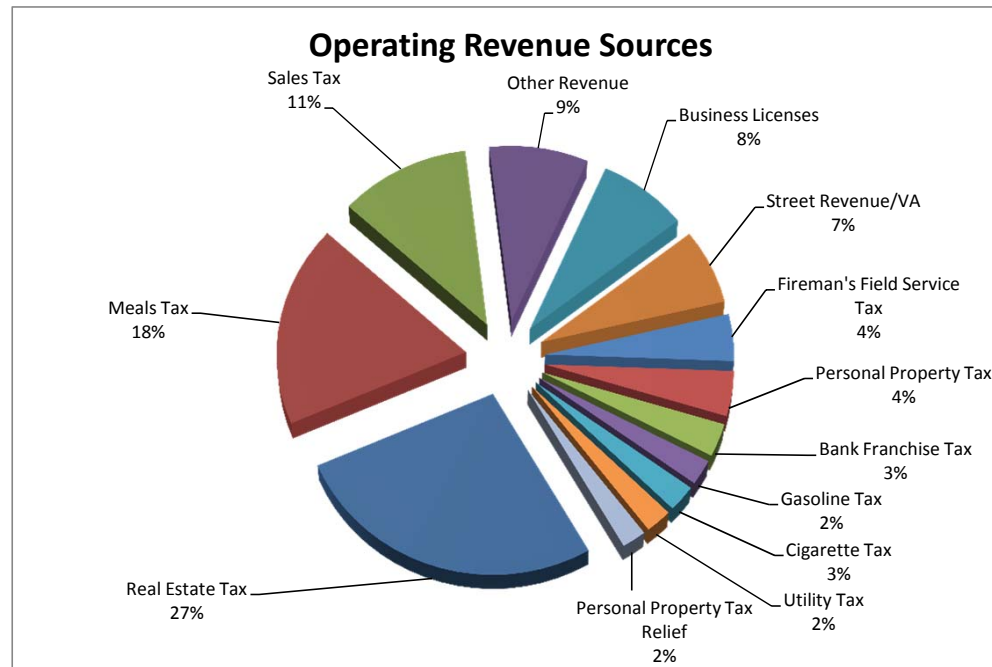
FY 09 includes two PPT billings due to date change

FY 13 Meals Tax rate was increased 1% (\$440k)

FY 13 Fireman's Field Service Tax added (\$173k)

## Governmental Funds FY 16 Operating Revenue Sources

Real Estate Tax	2,620,943	26.8%
Meals Tax	1,786,932	18.3%
Sales Tax	1,110,071	11.4%
Other Revenue	837,100	8.6%
Business Licenses	765,795	7.8%
Street Revenue/VA	667,541	6.8%
Fireman's Field Service Tax	416,371	4.3%
Personal Property Tax	400,708	4.1%
Bank Franchise Tax	292,544	3.0%
Gasoline Tax	223,147	2.3%
Cigarette Tax	233,855	2.4%
Utility Tax	220,033	2.3%
Personal Property Tax Relief	201,753	2.1%
	<u>9,776,793</u>	<u>100.0%</u>

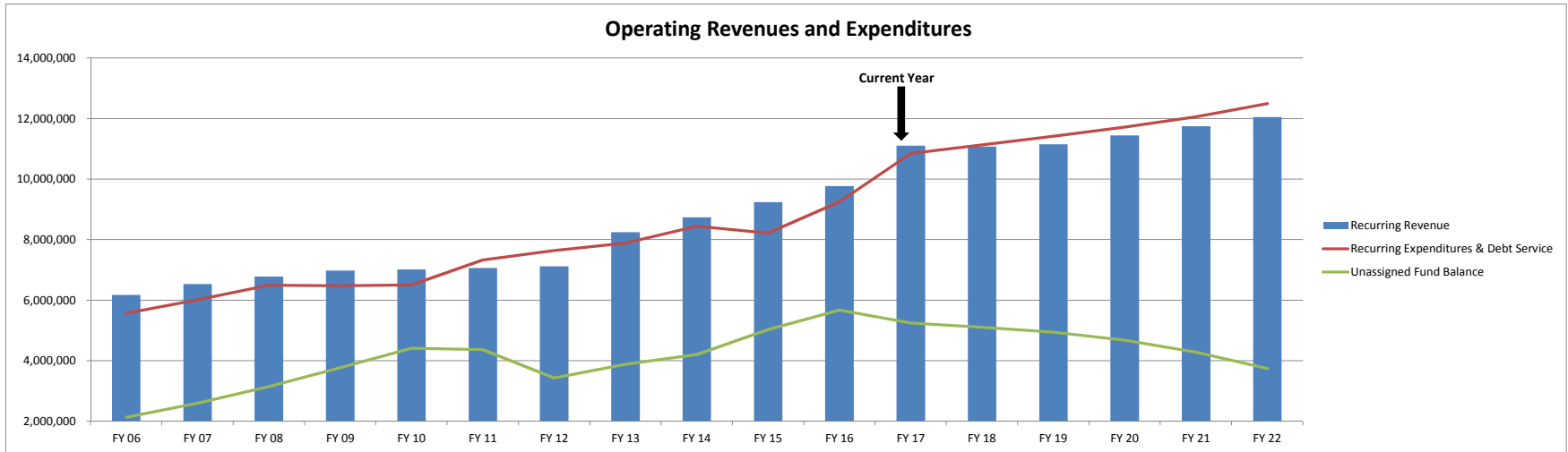


Water/Sewer Chargeback is not included in revenue sources. It is a method for accounting for personnel, facility and software costs paid for in the General Fund that supports Utility activities and facilities.



### Governmental Funds Structural Balance

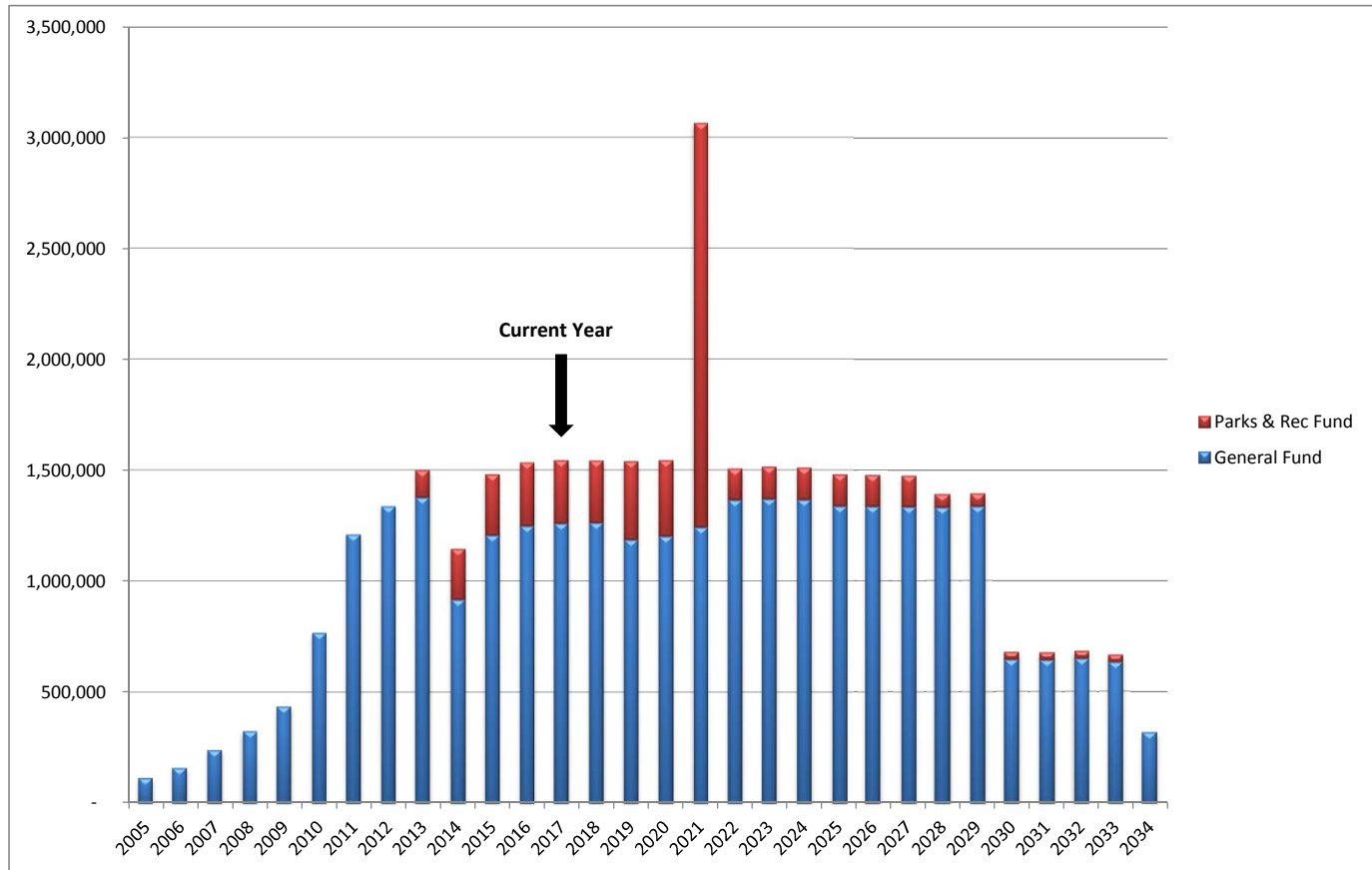
	Actual FY 06	Actual FY 07	Actual FY 08	Actual FY 09	Actual FY 10	Actual FY 11	Actual FY 12	Actual FY 13	Actual FY 14	Actual FY 15	Actual FY 16	Adopted FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21	Projected FY 22
<b>Revenues</b>																	
Total Recurring Operating Revenues	6,178,749	6,536,280	6,780,133	6,982,367	7,020,947	7,069,118	7,125,670	8,244,213	8,741,678	9,240,129	9,776,793	11,104,534	11,075,309	11,154,498	11,451,349	11,745,807	12,051,218
<b>Expenditures</b>																	
Recurring Expenditures & Debt Service	5,567,682	6,014,469	6,496,478	6,481,144	6,508,059	7,330,790	7,647,152	7,891,156	8,451,290	8,215,971	9,255,633	10,854,299	11,133,445	11,417,530	11,719,196	12,062,430	12,495,986
Unassigned Fund Balance	2,137,481	2,599,404	3,145,905	3,768,574	4,415,059	4,368,340	3,427,576	3,884,533	4,209,033	5,031,166	5,676,427	5,245,251	5,108,914	4,941,247	4,678,970	4,278,098	3,744,928



Based on multi-year forecast from the FY 17 adopted budget document.

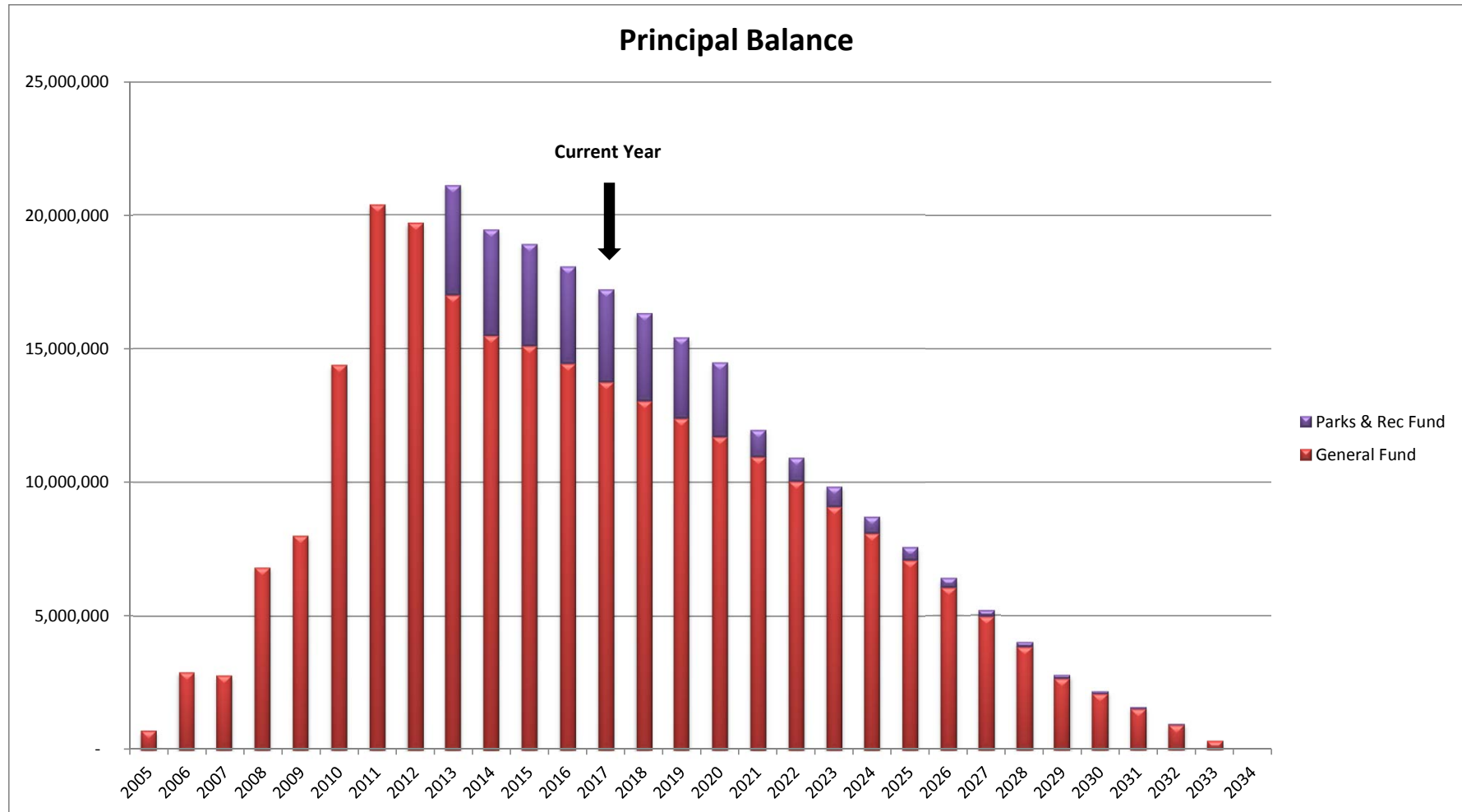
## Governmental Funds Debt Service Profile

Fiscal Year	Total Debt Service	
	General Fund	P & R Fund
2005	113,587	-
2006	158,615	-
2007	239,538	-
2008	324,324	-
2009	435,355	-
2010	767,605	-
2011	1,210,891	-
2012	1,338,294	-
2013	1,377,635	123,609
2014	917,432	228,889
2015	1,207,553	274,485
2016	1,249,204	286,618
2017	1,260,569	284,244
2018	1,263,293	280,935
2019	1,187,555	353,081
2020	1,202,842	343,155
2021	1,244,304	1,821,829
2022	1,366,544	141,096
2023	1,370,635	145,596
2024	1,368,250	144,366
2025	1,338,466	143,578
2026	1,335,707	142,310
2027	1,334,072	141,030
2028	1,329,790	60,191
2029	1,334,031	58,622
2030	645,124	32,496
2031	643,217	32,594
2032	649,051	33,121
2033	631,243	32,701
2034	312,375	-

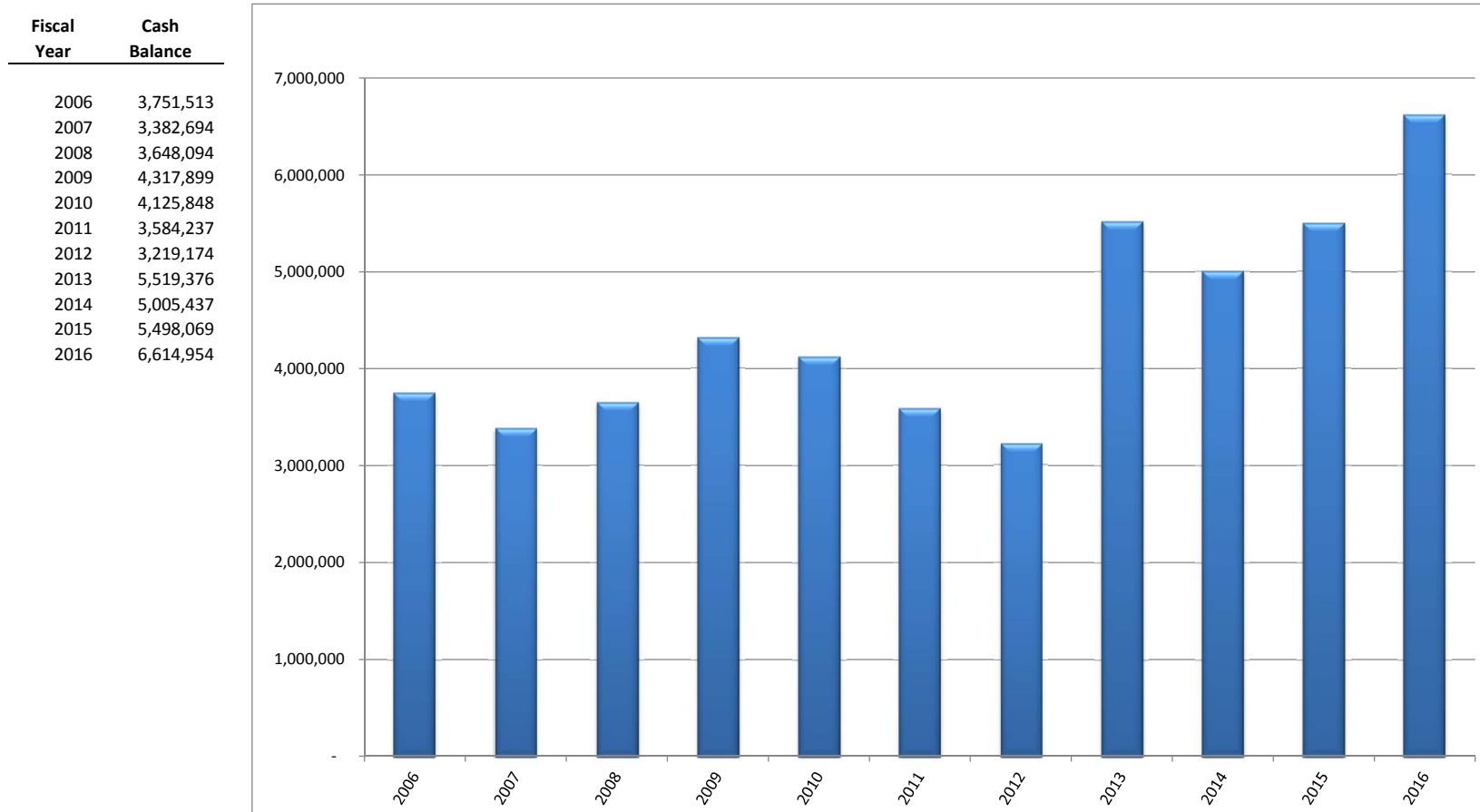


FY 05 - 12 include Parks and Rec related debt.  
 FY 09 - 11 included capitalized interest.  
 FY 14 Savings from the 2013 Public Bond Sale.  
 FY 21 Balloon principle payment (\$1,645,000) due.

## Governmental Funds Outstanding Debt Balance



## Governmental Funds Cash and Cash Equivalents

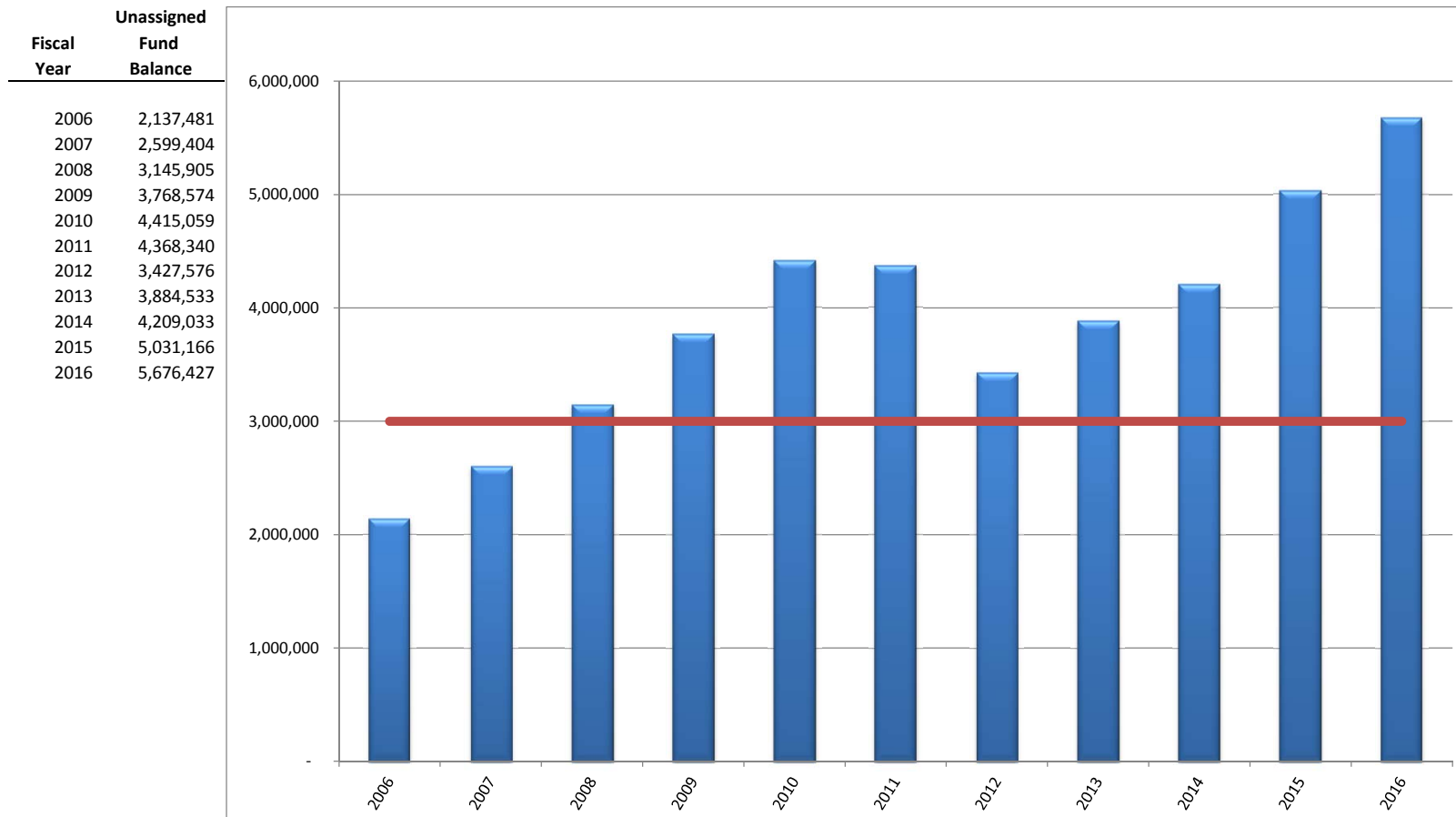


CAFR Exhibit 3

Balances have been adjusted to remove Loudoun County Settlement which has been committed for CIP projects.

FY 13 includes \$1.2mil received from sale of old town hall. Of those proceeds \$756k was used to establish Capital Reserve Fund for future debt service.

## Governmental Funds Unassigned Fund Balance



Fiscal Policy -Unassigned fund balance should be a minimum of \$3 million or 30% of total revenues.

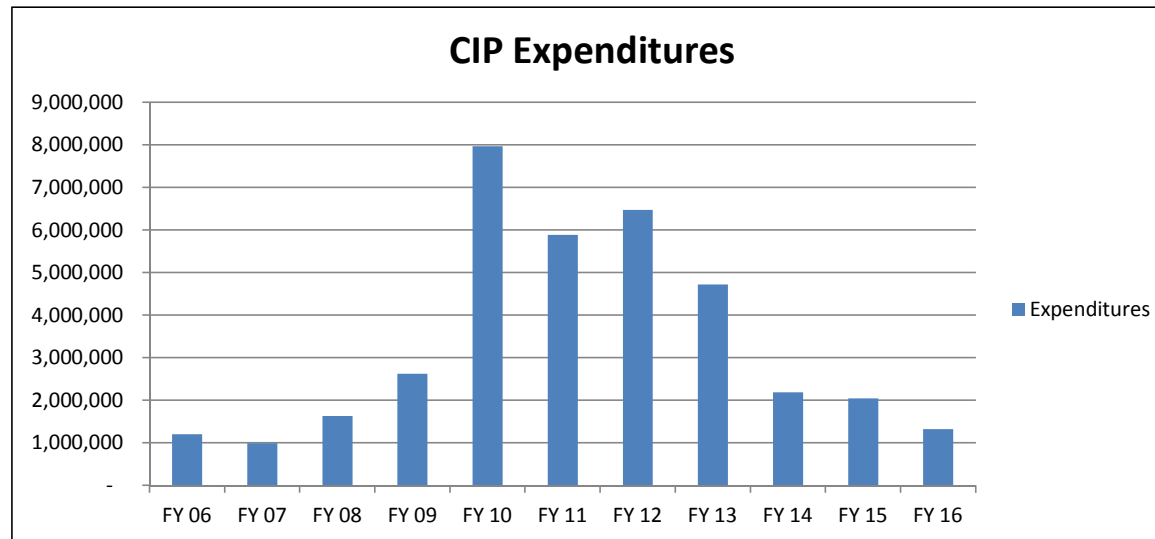
Unassigned Fund Balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

FY 12 - \$940k draw on reserves included \$419k cash used for CIP and higher than expected legal costs.

## Governmental Funds Capital Improvement Project Expenditures

Fiscal Year

FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
1,201,437	993,440	1,629,920	2,626,703	7,966,092	5,885,404	6,468,773	4,723,938	2,190,996	2,046,356	1,323,834



## Water Fund

- **Assumptions:**

These graphs have been modified to better reflect ongoing operating revenues and expenditures.

All Capital Projects revenues and expenditures have been excluded from the operating graphs.

FY 13 (\$2.2m) and FY 15 (\$472k) write-off of Construction in Progress has been excluded to provide more accurate picture of recurring expenditures. These were studies and project designs that occurred over multiple fiscal years that did not result in a capitalizable asset. These should have increased operating expenditures in prior years if expensed when incurred.

Availability Revenue fluctuates from year to year which leads to fluctuations in net income.

As the town moves toward build-out, availability revenue will decrease.

Utility chargeback is shown as an expenditure. It is used to allocate personnel and other costs paid out of the General Fund to support activity in the Utility Funds.

In FY 2010 the chargeback was adjusted to better reflect true costs.

- **Basis of Accounting**

The Water Fund uses the Accrual Basis of accounting. Transactions are recognized at the time they are incurred, as opposed to when cash is received or spent.

Differences include:

- Depreciation is shown as an expense.

- Debt Service shown only includes interest portion of payments.

- **Data Source**

Comprehensive Annual Financial Report

## Water Fund Profile

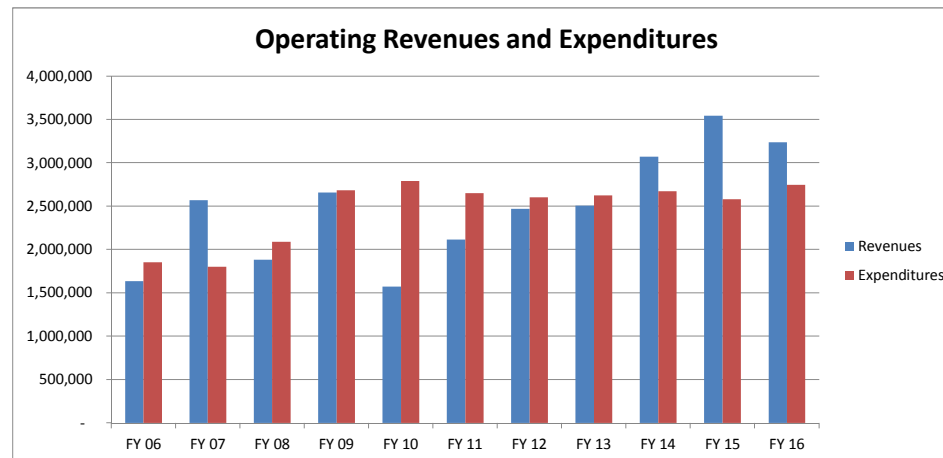
### Overview: Operating Revenues and Expenditures

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
<b>Revenues</b>											
User Fees	769,273	1,010,623	952,417	1,062,803	1,348,681	1,801,336	1,907,333	1,970,741	2,033,290	2,058,520	2,047,071
Other Income*	398,081	442,571	368,547	333,370	188,586	206,952	219,145	217,968	220,467	222,435	237,635
Availabilities	470,000	1,115,400	561,696	1,261,946	34,469	108,438	343,018	317,264	819,467	1,264,685	952,898
<b>Total Revenue</b>	<b>1,637,354</b>	<b>2,568,594</b>	<b>1,882,660</b>	<b>2,658,119</b>	<b>1,571,736</b>	<b>2,116,726</b>	<b>2,469,496</b>	<b>2,505,973</b>	<b>3,073,224</b>	<b>3,545,640</b>	<b>3,237,604</b>
Percent Change Year to Year		57%	-27%	41%	-41%	35%	17%	1%	23%	15%	-9%
<b>Expenditures</b>											
Personnel & Chargeback	612,326	907,551	1,001,538	1,425,177	1,436,469	1,396,771	1,354,515	1,337,098	1,350,137	1,310,286	1,396,019
Operating Expenses	786,446	425,385	551,392	581,569	478,458	460,851	518,878	497,688	482,420	499,597	564,086
Debt Svc & Depreciation	455,451	469,456	537,087	676,428	875,009	792,731	729,736	792,250	841,630	769,973	788,268
<b>Total Expenditures</b>	<b>1,854,223</b>	<b>1,802,392</b>	<b>2,090,017</b>	<b>2,683,174</b>	<b>2,789,936</b>	<b>2,650,353</b>	<b>2,603,129</b>	<b>2,627,036</b>	<b>2,674,187</b>	<b>2,579,856</b>	<b>2,748,373</b>
Percent Change Year to Year		-3%	16%	28%	4%	-5%	-2%	1%	2%	-4%	7%

\*Includes Cellular Lease & Investment Income

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
<b>Revenues</b>											
User Fees	47%	39%	51%	40%	86%	85%	77%	79%	66%	58%	63%
Other Income*	24%	17%	20%	13%	12%	10%	9%	9%	7%	6%	7%
Availabilities	29%	43%	30%	47%	2%	5%	14%	13%	27%	36%	29%
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Expenditures</b>											
Personnel & Chargeback	33%	50%	48%	53%	51%	53%	52%	51%	50%	51%	51%
Operating Expenses	42%	24%	26%	22%	17%	17%	20%	19%	18%	19%	21%
Debt Svc & Depreciation	25%	26%	26%	25%	31%	30%	28%	30%	31%	30%	29%
<b>Total Expenditures</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

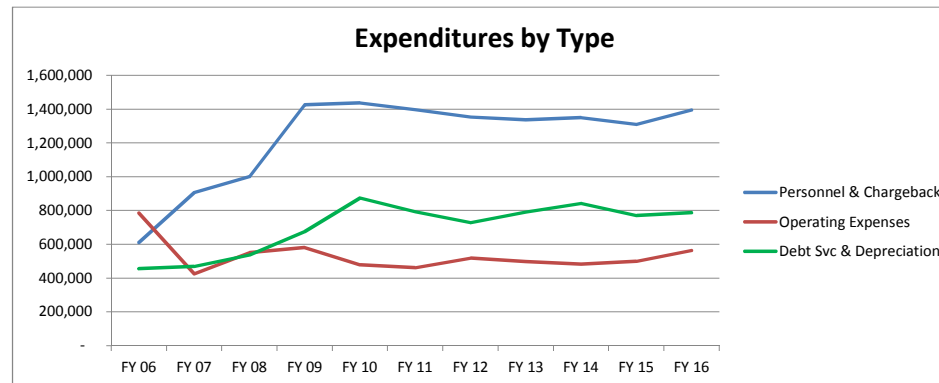
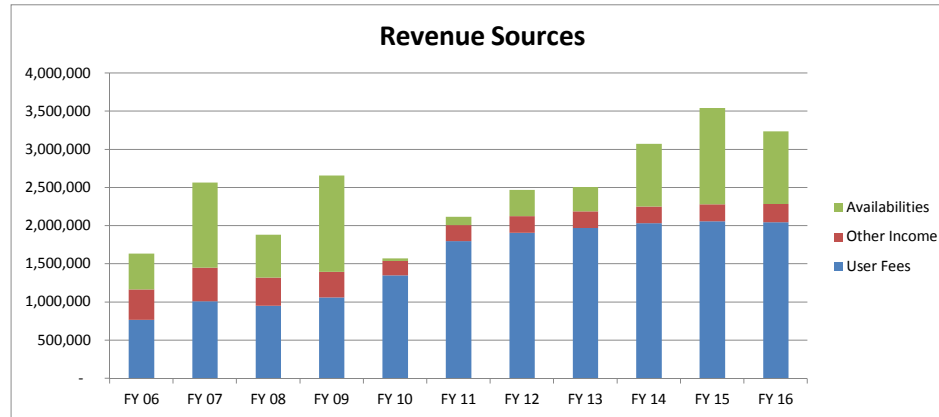
\*Includes Cellular Lease & Investment Income





## Water Fund Profile

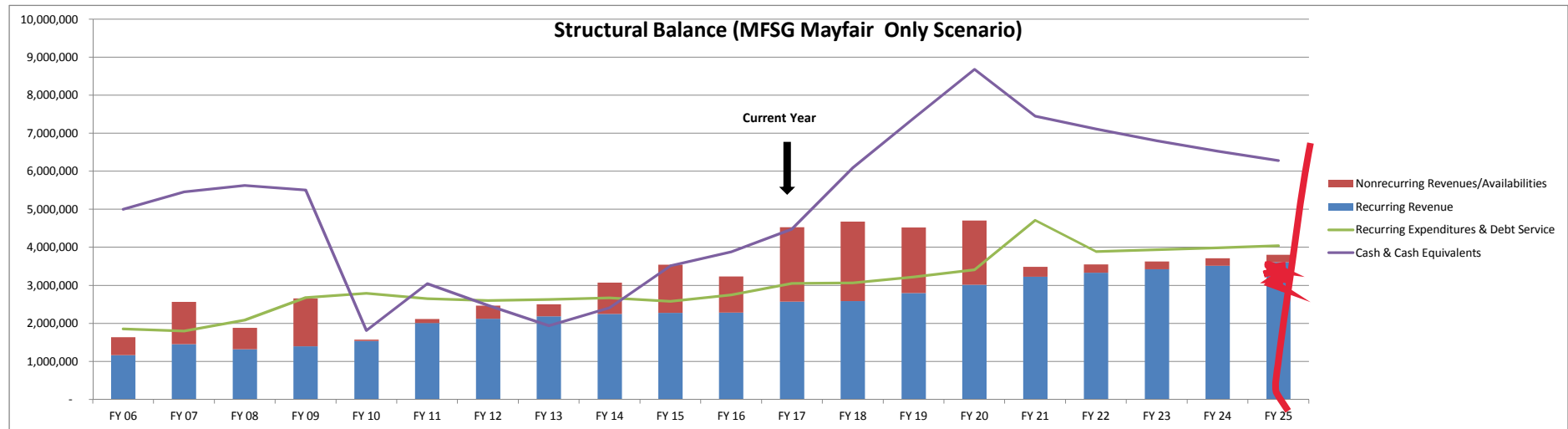
### Overview: Operating Revenues and Expenditures (Cont'd)



CAFR Exhibit 8  
 FY 06 through FY 08 Chargeback accounted for additional support staff from General Fund.

## Water Fund Profile Structural Balance

	Actual FY 06	Actual FY 07	Actual FY 08	Actual FY 09	Actual FY 10	Actual FY 11	Actual FY 12	Actual FY 13	Actual FY 14	Actual FY 15	Actual FY 16	Adopted FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21	Projected FY 22	Projected FY 23	Projected FY 24	Projected FY 25
<b>Revenues</b>												3%	7%	7%	7%	7%	3%	3%	3%	3%
Recurring Revenues	1,167,354	1,453,194	1,320,964	1,396,173	1,537,267	2,008,288	2,126,478	2,188,709	2,253,757	2,280,955	2,284,706	2,576,877	2,589,975	2,797,543	3,018,832	3,230,417	3,334,416	3,423,916	3,516,140	3,611,172
Availabilities	470,000	1,115,400	561,696	1,261,946	34,469	108,438	343,018	317,264	819,467	1,264,685	952,898	1,957,662	2,087,614	1,723,916	1,685,591	256,322	219,427	209,218	199,923	191,633
<b>Total Revenue</b>	<b>1,637,354</b>	<b>2,568,594</b>	<b>1,882,660</b>	<b>2,658,119</b>	<b>1,571,736</b>	<b>2,116,726</b>	<b>2,469,496</b>	<b>2,505,973</b>	<b>3,073,224</b>	<b>3,545,640</b>	<b>3,237,604</b>	<b>4,534,539</b>	<b>4,677,589</b>	<b>4,521,459</b>	<b>4,704,423</b>	<b>3,486,739</b>	<b>3,553,843</b>	<b>3,633,134</b>	<b>3,716,063</b>	<b>3,802,805</b>
Percent Change Year to Year		57%	-27%	41%	-41%	35%	17%	1%	23%	15%	-9%	40%	3%	-3%	4%	-26%	2%	2%	2%	2%
<b>Expenditures</b>																				
Operating Expenses	1,398,772	1,332,936	1,552,930	2,006,746	1,914,927	1,857,622	1,873,393	1,834,786	1,832,557	1,809,883	1,960,105	2,177,746	2,223,994	2,271,629	2,320,694	2,371,230	2,423,282	2,476,896	2,532,119	2,588,998
Debt Svc & Depreciation	455,451	469,456	537,087	676,428	875,009	792,731	729,736	792,250	841,630	769,973	788,268	874,888	841,387	951,945	1,093,432	2,345,328	1,470,876	1,466,072	1,460,269	1,453,396
<b>Total Expenditures</b>	<b>1,854,223</b>	<b>1,802,392</b>	<b>2,090,017</b>	<b>2,683,174</b>	<b>2,789,936</b>	<b>2,650,353</b>	<b>2,603,129</b>	<b>2,627,036</b>	<b>2,674,187</b>	<b>2,579,856</b>	<b>2,748,373</b>	<b>3,052,634</b>	<b>3,065,381</b>	<b>3,223,574</b>	<b>3,414,126</b>	<b>4,716,558</b>	<b>3,894,158</b>	<b>3,942,968</b>	<b>3,992,388</b>	<b>4,042,394</b>
Percent Change Year to Year		-3%	16%	28%	4%	-5%	-2%	1%	2%	-4%	7%	11%	0%	5%	6%	38%	-17%	1%	1%	1%
<b>Cash &amp; Cash Equivalents</b>																				
	5,001,703	5,459,283	5,628,592	5,508,338	1,813,052	3,046,201	2,476,736	1,942,327	2,412,481	3,514,106	3,882,260	4,483,674	6,095,883	7,393,768	8,684,066	7,454,248	7,113,933	6,804,099	6,527,775	6,288,186



The goal of structural balance is for recurring revenue to fully support recurring expenditures including debt service.

This graph shows the fund's reliance on nonrecurring revenue sources (availabilities and reserves).

Revenue shortfalls (below green line) must be augmented by reserves.

Excess revenue (above green line) replenishes reserves.

Recurring Revenues includes Cellular Lease & Investment Income

Policy: Utility cash and cash equivalent should exceed 100% of total operating expenditures and debt service.

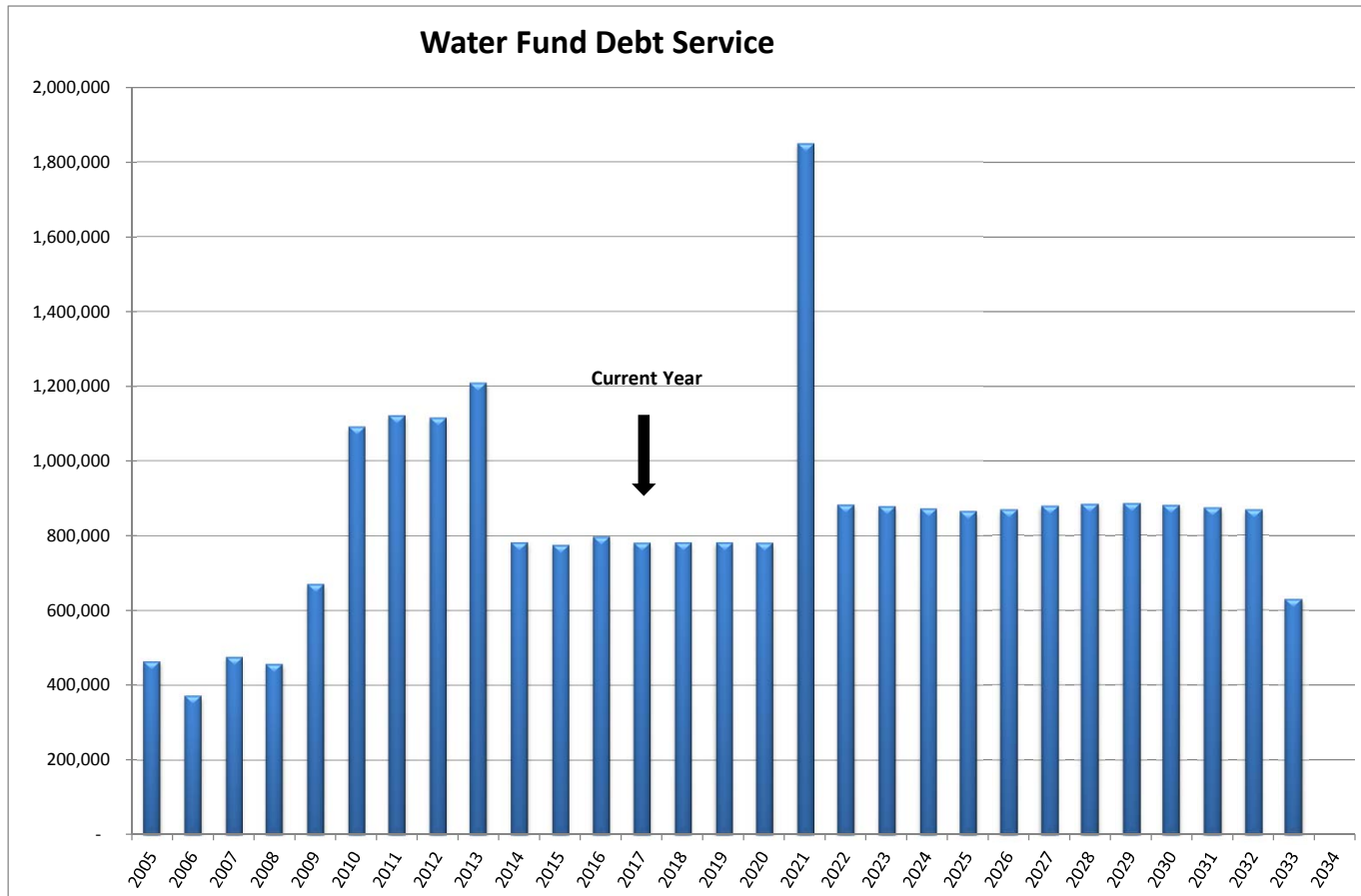
Therefore, the green total expenditure line also represents the cash policy minimum.

Based on multi-year forecast from the FY 17 adopted budget document.

## Water Fund Debt Service Profile

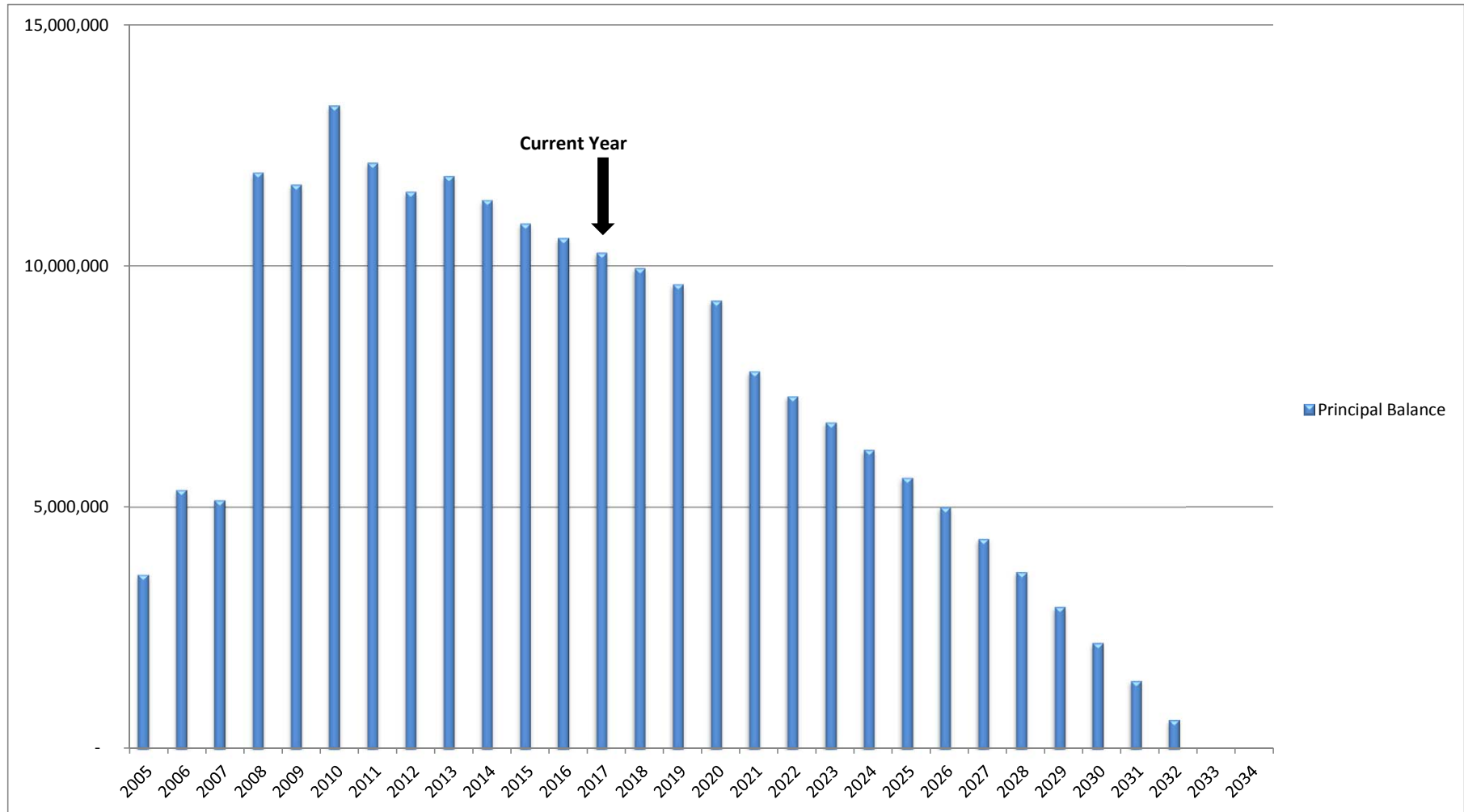
### WATER FUND

Fiscal Year	Total Debt Service
2005	463,853
2006	371,843
2007	475,627
2008	456,934
2009	670,419
2010	1,091,624
2011	1,121,577
2012	1,115,857
2013	1,209,710
2014	782,076
2015	774,944
2016	797,655
2017	780,888
2018	782,046
2019	781,834
2020	780,831
2021	1,849,658
2022	883,198
2023	878,394
2024	872,591
2025	865,718
2026	868,027
2027	878,767
2028	882,688
2029	884,791
2030	880,324
2031	874,289
2032	867,922
2033	629,956
2034	-



FY 14 debt restructuring from the 2013 Public Bond Sale.  
FY 21 Balloon principle payment (\$1,440,000) due.

## Water Fund Outstanding Debt Balance

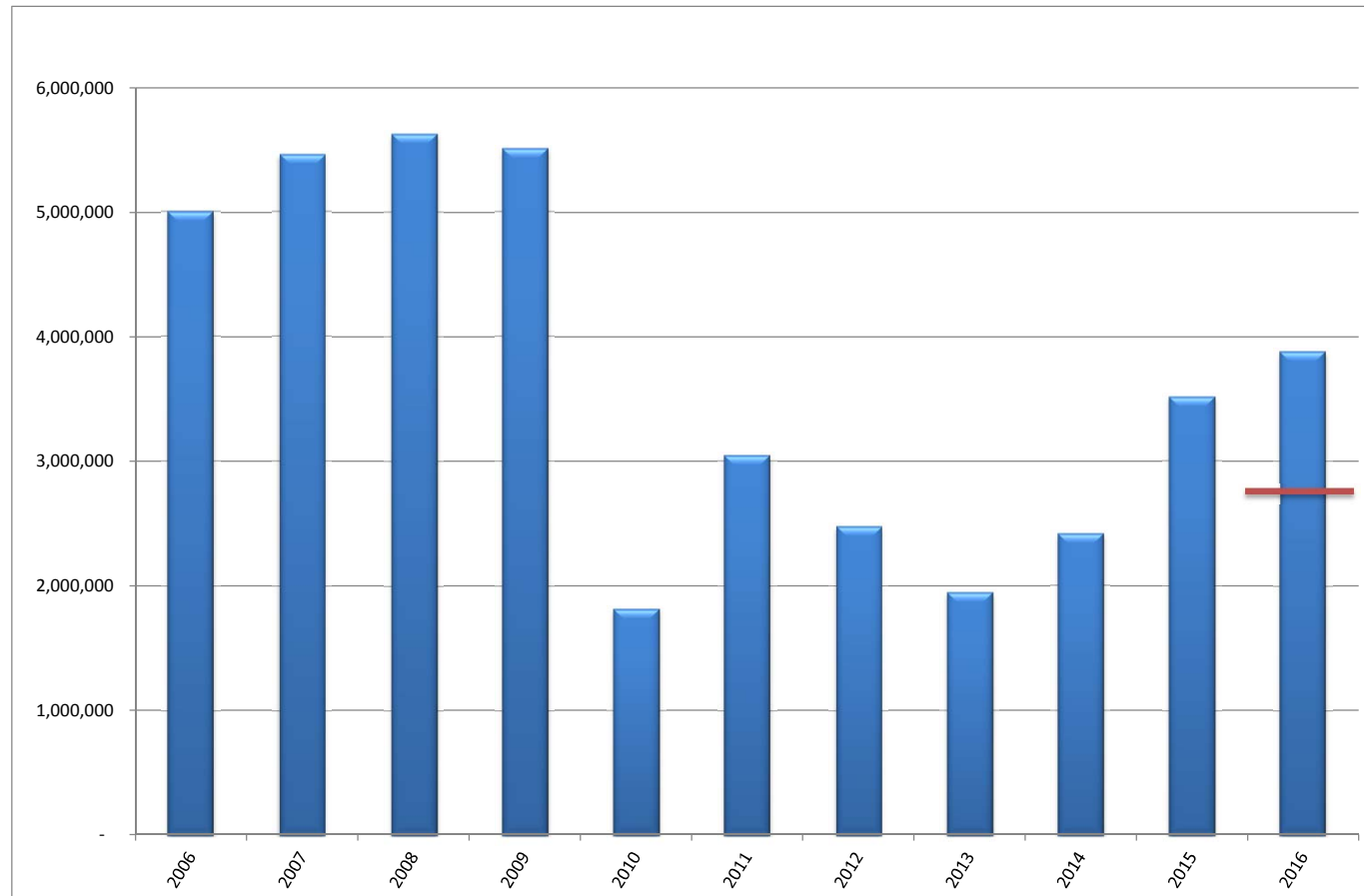


## Water Fund Cash and Cash Equivalents

Fiscal Year	Cash Balance
2006	5,001,703
2007	5,459,283
2008	5,628,592
2009	5,508,338
2010	1,813,052
2011	3,046,201
2012	2,476,736
2013	1,942,327
2014	2,412,481
2015	3,514,106
2016	3,882,260

**Policy Level (red line)**

2016	2,748,373
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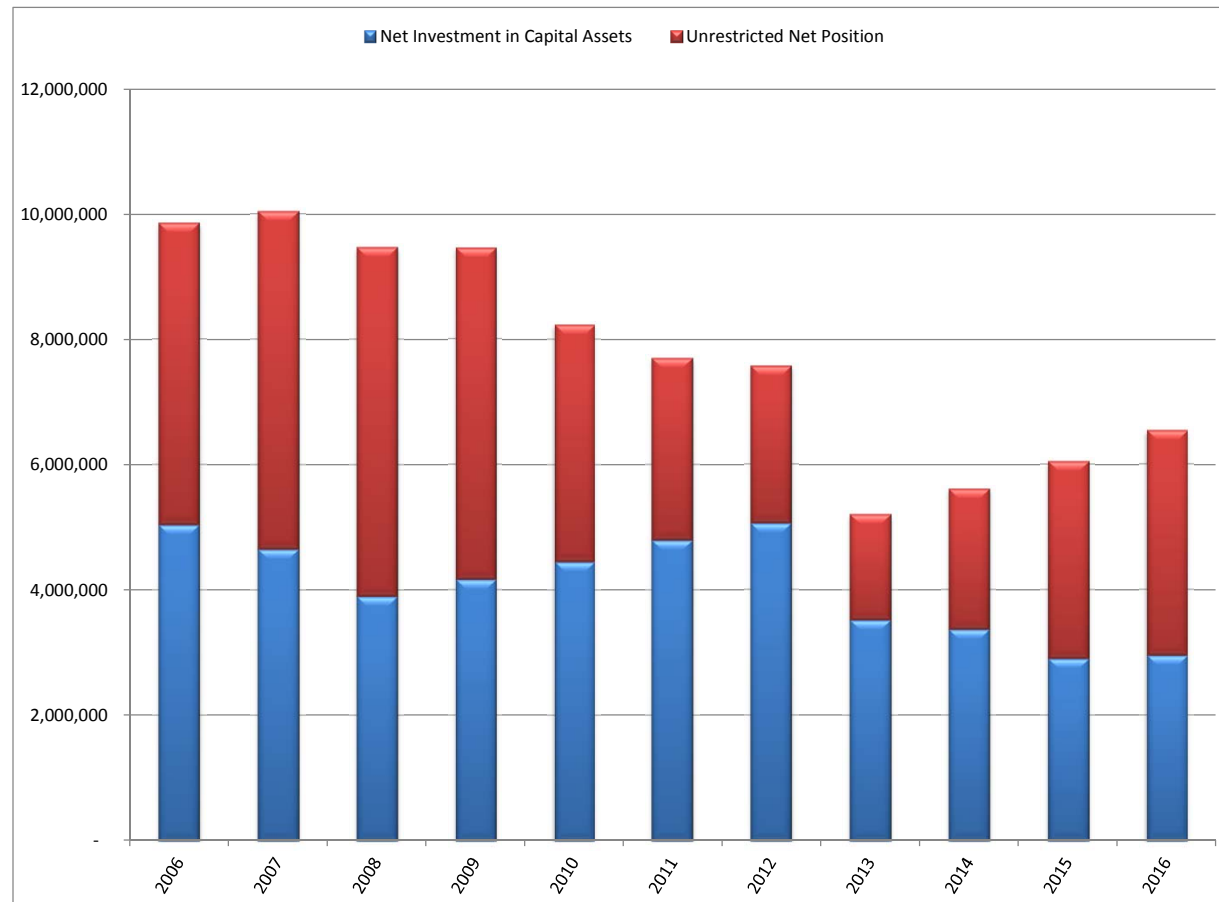
Policy: Utility cash and cash equivalent should exceed 100% of total operating expenditures and debt service.

FY 10-\$2.175m payment for purchase of Aberdeen Property.

FY 11-Loan proceeds drawn to reimburse fund for Aberdeen purchase.

## Water Fund Total Net Position

Fiscal Year	Net Investment in Capital Assets	Unrestricted Net Position	Total Net Position
2006	5,039,234	4,818,581	9,857,815
2007	4,654,281	5,395,043	10,049,324
2008	3,901,824	5,574,529	9,476,353
2009	4,166,440	5,288,826	9,455,266
2010	4,453,366	3,783,700	8,237,066
2011	4,796,267	2,907,172	7,703,439
2012	5,061,672	2,508,134	7,569,806
2013	3,523,907	1,687,083	5,210,990
2014	3,367,472	2,242,555	5,610,027
2015	2,901,963	3,147,550	6,049,513
2016	2,952,758	3,585,986	6,538,744



Net position shows the Town's assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position may serve as a useful indicator of a government's financial position over time. An increase may indicate an improved financial position; however, even decreases may reflect a changing manner in which the Town may have used previously accumulated funds.

FY 13 \$2,158,295 adjustment of construction in progress for expenditures that could not be categorized as Capital Assets.

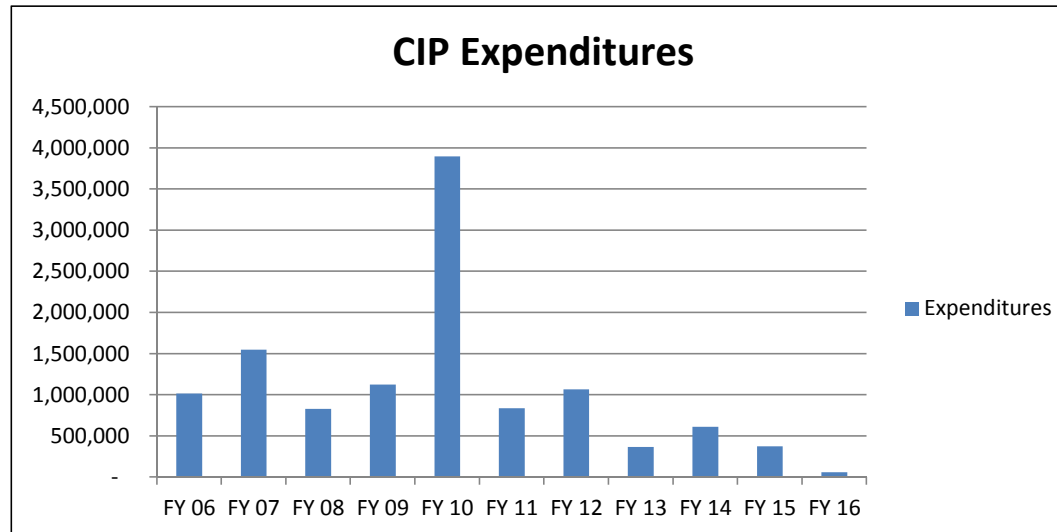
FY 15 \$472,921 adjustment of construction in progress for expenditures that could not be categorized as Capital Assets.

FY 11 adjusted to include SNAP funds to make it consistent with other fiscal years.

## Water Fund Capital Improvement Project Expenditures

Fiscal Year

FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
1,017,675	1,549,331	828,481	1,126,033	3,898,453	835,653	1,067,233	365,271	613,112	375,328	60,372



# Wastewater Fund

- **Assumptions:**

These graphs have been modified to better reflect ongoing operating revenues and expenditures.

The WQIF Grant, for the BSWF Facility is a non-recurring revenue source and has been excluded from operating graphs to provide a more accurate picture of on-going revenue sources.

FY 08 = \$959,271

FY 09 = \$2,966,251

FY 10 = \$967,090

FY 12 = \$116,199

All Capital Projects revenues and expenditures have been excluded from the operating graphs.

Availability Revenue fluctuates from year to year which leads to fluctuations in net income.

As the town moves toward build-out, availability revenue will decrease.

Utility chargeback is shown as an expenditure. It is used to allocate personnel and other costs paid out of the General Fund to support activity in the Utility Funds.

In FY 2010 the chargeback was adjusted to better reflect true costs.

- **Basis of Accounting**

The Waste Water Fund uses the Accrual Basis of accounting. Transactions are recognized at the time they are incurred, as opposed to when cash is received or spent.

Differences include:

Depreciation is shown as an expense.

Debt Service shown only includes interest portion of payments.

- **Data Source**

Comprehensive Annual Financial Report



## Wastewater Fund Profile

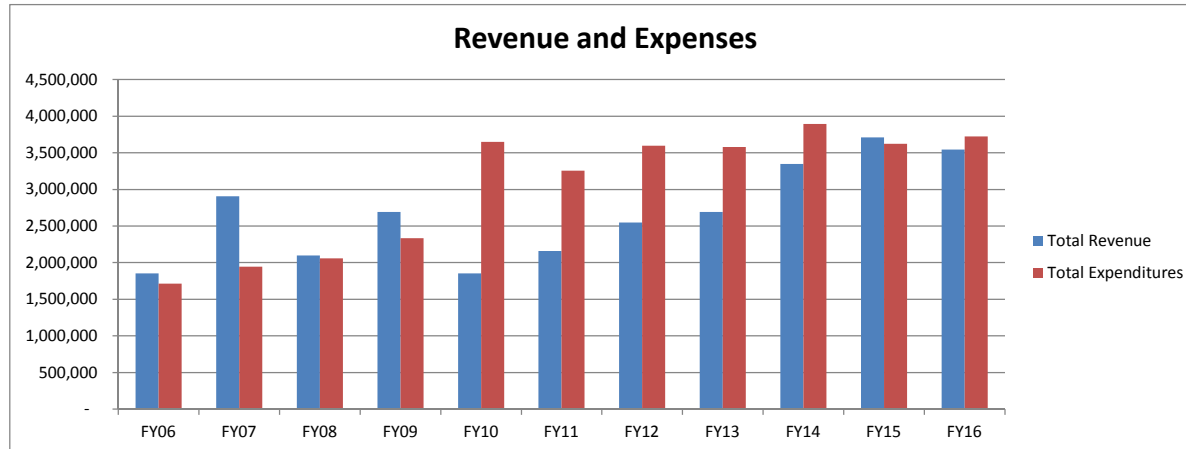
### Overview: Operating Revenues and Expenditures

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
<b>Revenues</b>											
User Fees	1,043,190	1,518,364	1,322,697	1,442,397	1,710,226	1,989,454	2,198,194	2,360,589	2,624,003	2,576,250	2,690,873
Other Income*	386,538	428,599	304,063	171,428	111,992	76,235	61,541	41,930	36,437	71,565	53,767
Availabilities	423,000	961,000	470,400	1,080,000	30,315	91,049	287,690	287,690	687,290	1,060,697	799,200
<b>Total Revenue</b>	<b>1,852,728</b>	<b>2,907,963</b>	<b>2,097,160</b>	<b>2,693,825</b>	<b>1,852,533</b>	<b>2,156,738</b>	<b>2,547,425</b>	<b>2,690,209</b>	<b>3,347,730</b>	<b>3,708,512</b>	<b>3,543,840</b>
Percent Change Year to Year		57%	-28%	28%	-31%	16%	18%	6%	24%	11%	-4%
<b>Expenditures</b>											
Personnel & Chargeback	742,262	909,733	974,140	1,363,140	1,387,991	1,318,043	1,327,218	1,381,996	1,409,729	1,338,224	1,332,031
Operating Expenses	377,410	417,524	440,738	384,469	503,162	484,824	505,234	475,323	563,539	509,056	545,717
Debt Service & Depreciation	593,571	618,763	644,120	584,228	1,759,485	1,454,969	1,762,077	1,723,685	1,920,800	1,774,070	1,847,089
<b>Total Expenditures</b>	<b>1,713,243</b>	<b>1,946,020</b>	<b>2,058,998</b>	<b>2,331,837</b>	<b>3,650,638</b>	<b>3,257,836</b>	<b>3,594,529</b>	<b>3,581,004</b>	<b>3,894,068</b>	<b>3,621,350</b>	<b>3,724,837</b>
Percent Change Year to Year		14%	6%	13%	57%	-11%	10%	0%	9%	-7%	3%

\* This includes Investment Earnings

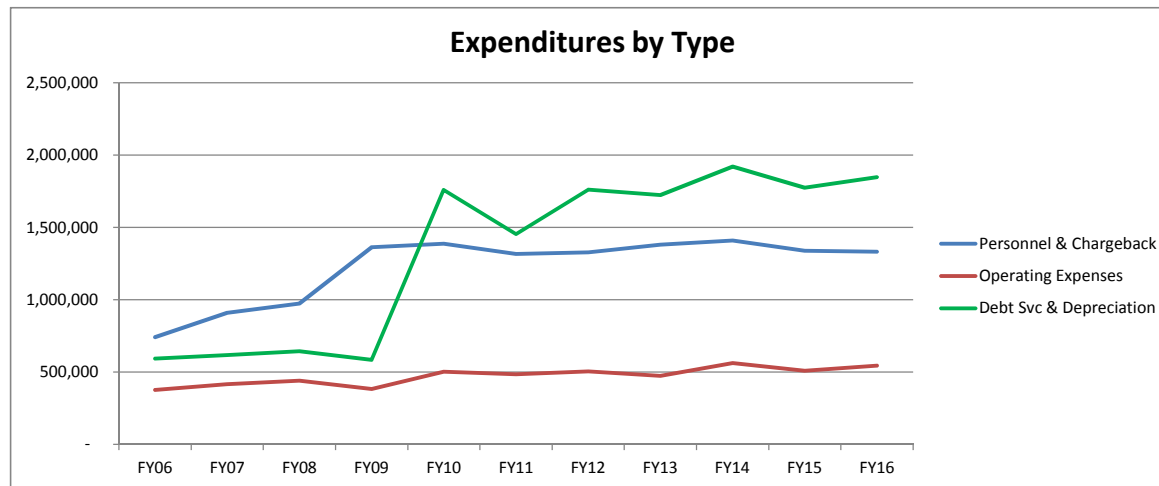
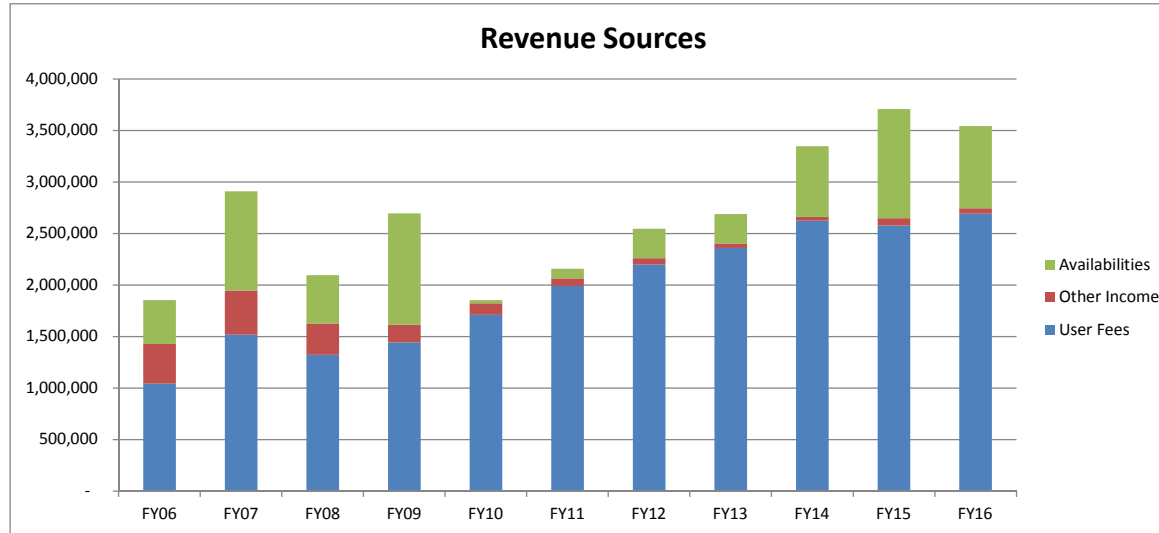
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY15
<b>Revenues</b>											
User Fees	56%	52%	63%	54%	92%	92%	86%	88%	78%	69%	76%
Other Income*	21%	15%	14%	6%	6%	4%	2%	2%	1%	2%	2%
Availabilities	23%	33%	22%	40%	2%	4%	11%	11%	21%	29%	23%
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Expenditures</b>											
Personnel & Chargeback	43%	47%	47%	58%	38%	40%	37%	39%	36%	37%	36%
Operating Expenses	22%	21%	21%	16%	14%	15%	14%	13%	14%	14%	15%
Debt Service & Depreciation	35%	32%	31%	25%	48%	45%	49%	48%	49%	49%	50%
<b>Total Expenditures</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* This includes Investment Earnings



## Wastewater Fund Profile

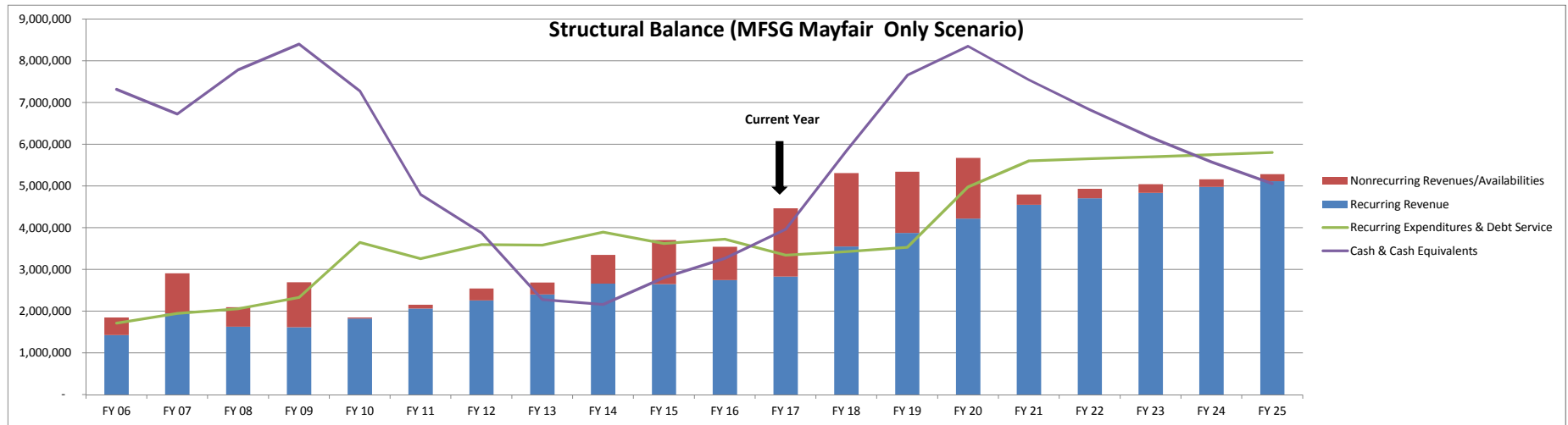
## Overview: Operating Revenues and Expenditures (Cont'd)



CAFR Exhibit 8

## Wastewater Fund Profile Structural Balance

	Actual FY 06	Actual FY 07	Actual FY 08	Actual FY 09	Actual FY 10	Actual FY 11	Actual FY 12	Actual FY 13	Actual FY 14	Actual FY 15	Actual FY 16	Adopted FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21	Projected FY 22	Projected FY 23	Projected FY 24	Projected FY 25
<b>Revenues</b>												5%	7%	7%	7%	7%	3%	3%	3%	3%
Recurring Revenues	1,429,728	1,946,963	1,626,760	1,613,825	1,822,218	2,065,689	2,259,735	2,402,519	2,660,440	2,647,815	2,744,640	2,827,834	3,552,597	3,874,360	4,218,196	4,549,410	4,706,847	4,840,185	4,977,585	5,119,173
Availabilities	423,000	961,000	470,400	1,080,000	30,315	91,049	287,690	287,690	687,290	1,060,697	799,200	1,641,600	1,760,418	1,471,371	1,460,911	250,624	226,441	204,829	185,131	167,363
<b>Total Revenue</b>	<b>1,852,728</b>	<b>2,907,963</b>	<b>2,097,160</b>	<b>2,693,825</b>	<b>1,852,533</b>	<b>2,156,738</b>	<b>2,547,425</b>	<b>2,690,209</b>	<b>3,347,730</b>	<b>3,708,512</b>	<b>3,543,840</b>	<b>4,469,434</b>	<b>5,313,015</b>	<b>5,345,731</b>	<b>5,679,107</b>	<b>4,800,034</b>	<b>4,933,288</b>	<b>5,045,014</b>	<b>5,162,716</b>	<b>5,286,536</b>
Percent Change Year to Year		57%	-28%	28%	-31%	16%	18%	6%	24%	11%	-4%	26%	19%	1%	6%	-15%	3%	2%	2%	2%
<b>Expenditures</b>																				
Operating Expenses	1,119,672	1,327,257	1,414,878	1,747,609	1,891,153	1,802,867	1,832,452	1,857,319	1,973,268	1,847,280	1,877,748	2,220,049	2,291,575	2,341,940	2,393,815	2,447,247	2,502,282	2,558,968	2,617,355	2,677,493
Debt Svc & Depreciation	593,571	618,763	644,120	584,228	1,759,485	1,454,969	1,762,077	1,723,685	1,920,800	1,774,070	1,847,089	1,125,805	1,136,332	1,192,477	2,588,196	3,158,887	3,151,387	3,142,637	3,137,637	3,126,137
<b>Total Expenditures</b>	<b>1,713,243</b>	<b>1,946,020</b>	<b>2,058,998</b>	<b>2,331,837</b>	<b>3,650,638</b>	<b>3,257,836</b>	<b>3,594,529</b>	<b>3,581,004</b>	<b>3,894,068</b>	<b>3,621,350</b>	<b>3,724,837</b>	<b>3,345,854</b>	<b>3,427,907</b>	<b>3,534,417</b>	<b>4,982,011</b>	<b>5,606,134</b>	<b>5,653,669</b>	<b>5,701,605</b>	<b>5,754,992</b>	<b>5,803,630</b>
Percent Change Year to Year		14%	6%	13%	57%	-11%	10%	0%	9%	-7%	3%	-10%	2%	3%	41%	13%	1%	1%	1%	1%
<b>Cash &amp; Cash Equivalents</b>																				
	7,322,122	6,726,478	7,784,394	8,404,191	7,278,048	4,801,599	3,879,221	2,281,417	2,158,476	2,803,636	3,267,683	3,960,603	5,845,711	7,657,025	8,354,120	7,548,019	6,827,638	6,171,046	5,578,771	5,061,677



The goal of structural balance is for recurring revenue to fully support recurring expenditures including debt service. This graph shows the fund's reliance on nonrecurring revenue sources (availabilities and reserves). Revenue shortfalls (below green line) must be augmented by reserves. Excess revenue (above green line) replenishes reserves. Recurring Revenues includes Cellular Lease & Investment Income

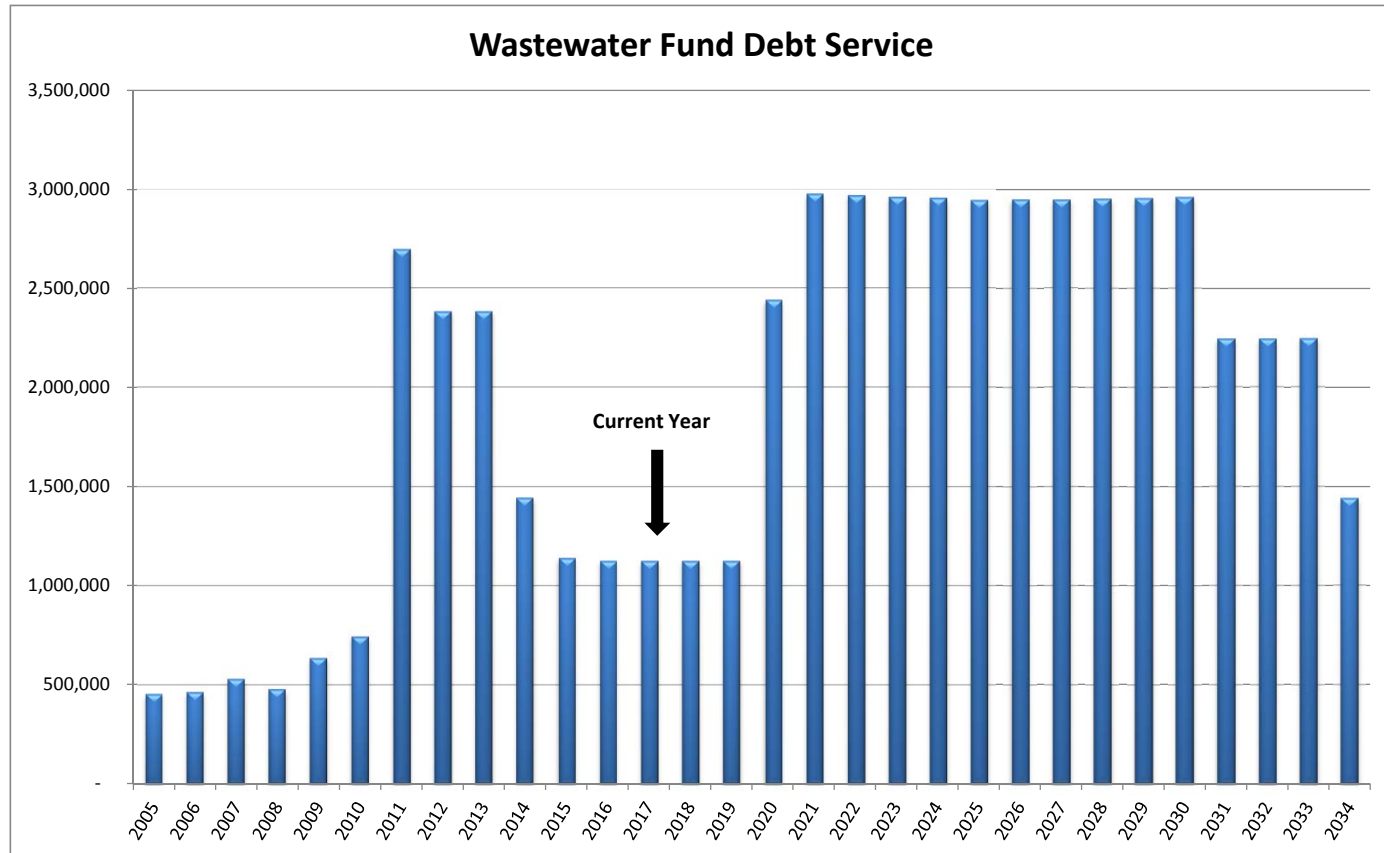
Policy: Utility cash and cash equivalent should exceed 100% of total operating expenditures and debt service. Therefore, the green total expenditure line also represents the cash policy minimum.

Based on multi-year forecast from the FY 17 adopted budget document.

## Wastewater Fund Debt Service Profile

### WASTEWATER FUND

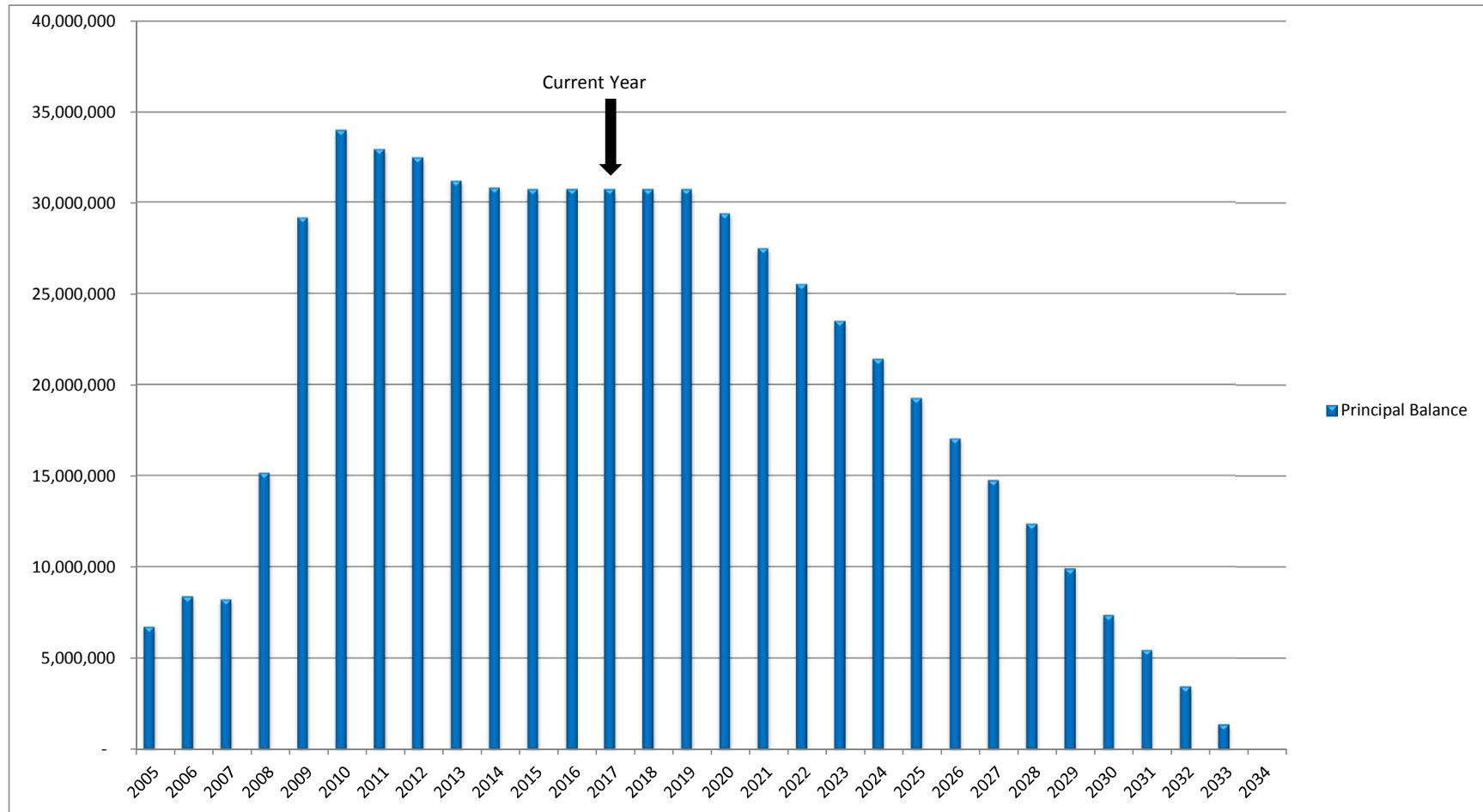
Fiscal Year	Total Debt Service
2005	455,356
2006	464,982
2007	530,398
2008	478,391
2009	635,881
2010	744,472
2011	2,696,955
2012	2,382,553
2013	2,382,767
2014	1,444,339
2015	1,140,709
2016	1,125,805
2017	1,125,805
2018	1,125,805
2019	1,125,805
2020	2,440,815
2021	2,976,415
2022	2,968,915
2023	2,960,165
2024	2,955,165
2025	2,943,665
2026	2,950,915
2027	2,945,915
2028	2,954,165
2029	2,956,515
2030	2,961,815
2031	2,243,939
2032	2,243,239
2033	2,245,709
2034	1,438,250



FY 14 debt restructuring from the 2013 Public Bond Sale.

Debt was restructured with the 2013 Public Bond for payment of interest only in years FY 14 - 19.

## Wastewater Fund Outstanding Debt Balance

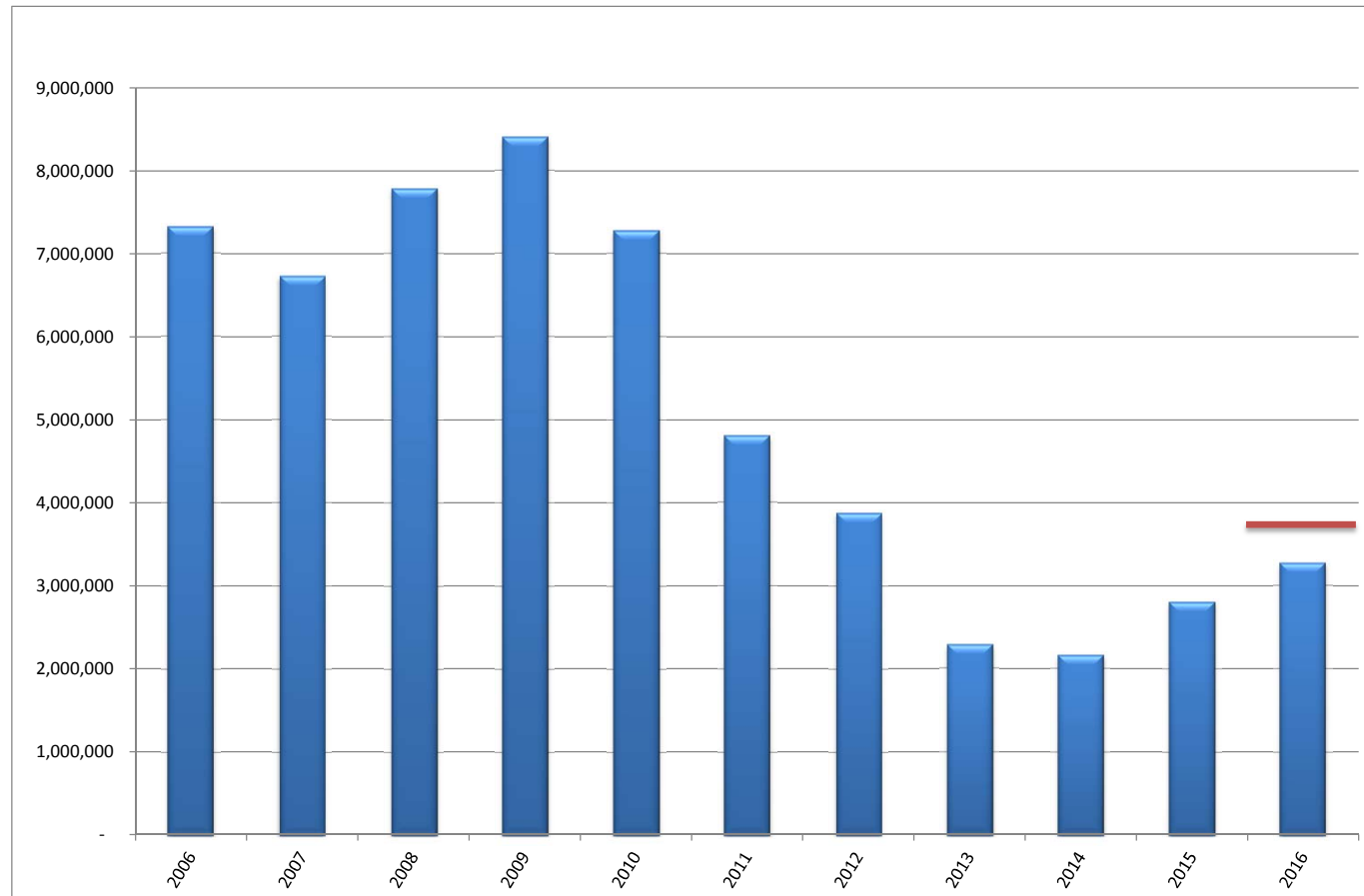


## Wastewater Fund Cash and Cash Equivalents

Fiscal Year	Cash Balance
2006	7,322,122
2007	6,726,478
2008	7,784,394
2009	8,404,191
2010	7,278,048
2011	4,801,599
2012	3,879,221
2013	2,281,417
2014	2,158,476
2015	2,803,636
2016	3,267,683

### Policy Level (red line)

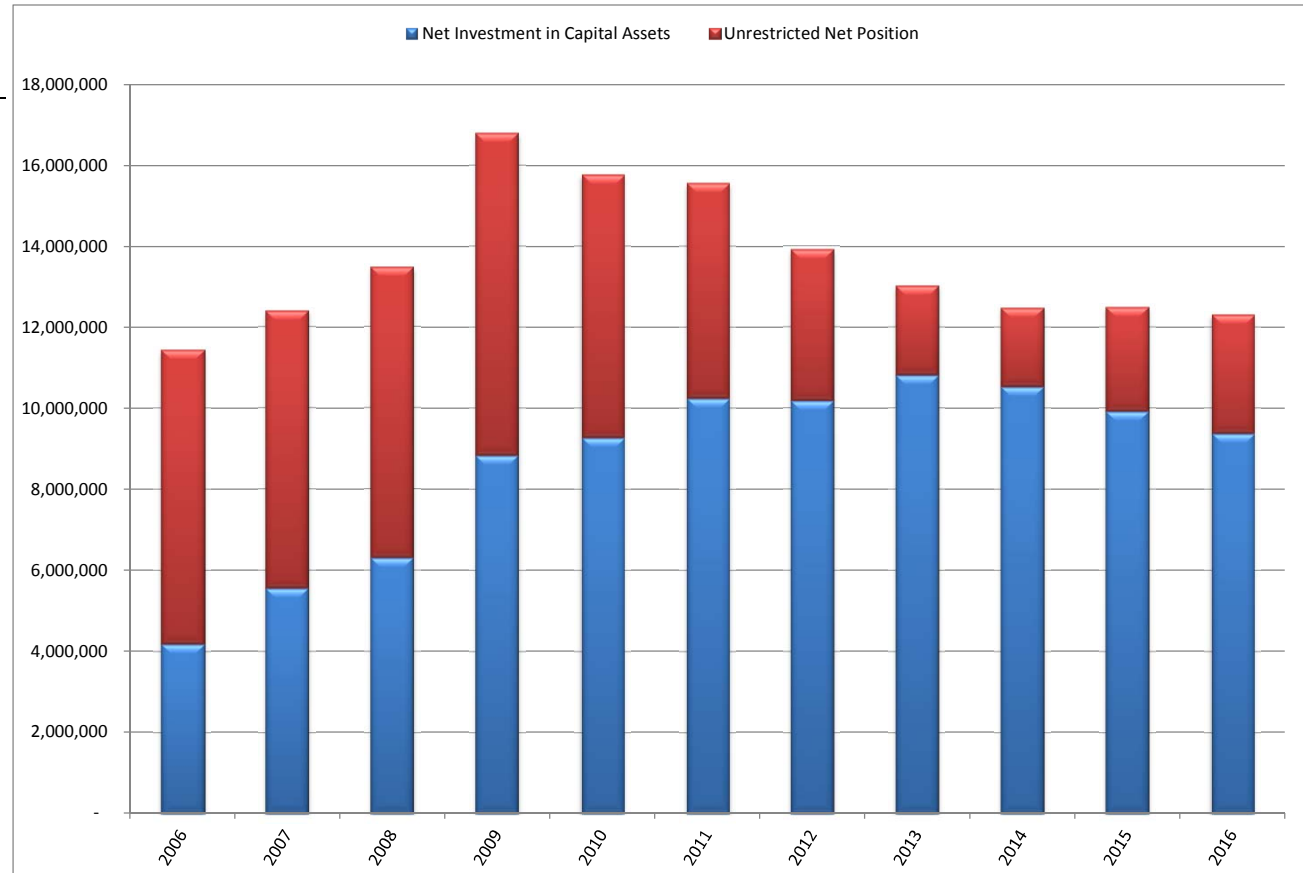
2016	3,724,837
------	-----------



Policy: Utility cash and cash equivalent should exceed 100% of total operating expenditures and debt service.

## Wastewater Fund Total Net Position

Fiscal Year	Net Investment in Capital Assets	Unrestricted Net Position	Total Net Position
2006	4,183,596	7,258,221	11,441,817
2007	5,560,654	6,842,388	12,403,042
2008	6,309,265	7,163,089	13,472,354
2009	8,837,792	7,957,643	16,795,435
2010	9,278,566	6,489,780	15,768,346
2011	10,246,584	5,316,528	15,563,112
2012	10,183,245	3,736,480	13,919,725
2013	10,821,281	2,206,799	13,028,080
2014	10,535,276	1,946,466	12,481,742
2015	9,924,328	2,571,247	12,495,575
2016	9,375,507	2,939,071	12,314,578



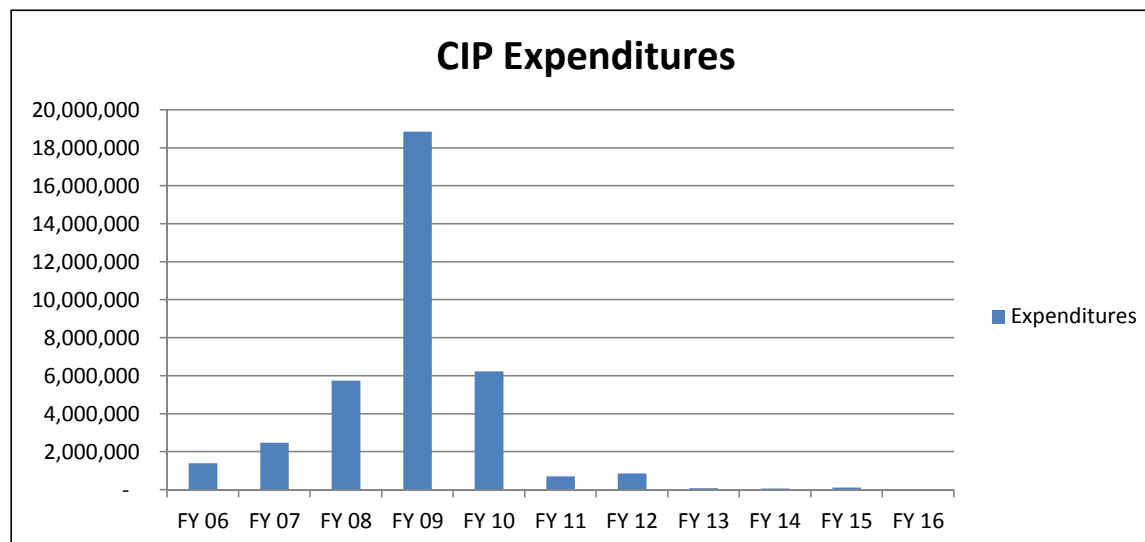
Net position shows the Town's assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position may serve as a useful indicator of a government's financial position over time. An increase may indicate an improved financial position; however, even decreases may reflect a changing manner in which the Town may have used previously accumulated funds.

FY 11 Number adjusted to include SNAP funds to make it reflect calculation of other fiscal years.

## Wastewater Fund Capital Improvement Project Expenditures

Fiscal Year

FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
1,401,740	2,484,575	5,742,580	18,860,133	6,231,228	709,604	856,029	85,521	62,311	114,856	-





# Appendix

# TOWN OF PURCELLVILLE TAX RATE HISTORY

Real Estate:		Fireman's Field Service Tax:		Personal Property:		Meals Tax:		Cig Tax:	
Tax Year	Tax Rate	Tax Yr	Tax Rate	Tax Yr	Tax Rate	Fiscal Yr	Rate	Fiscal Yr	Rate
1990-1995	0.24								
1996	0.24			1996	1.05	1996	3%		
1997	0.24			1997	1.05	1997	3%		
1998	0.24			1998	1.05	1998	3%		
1999	0.24			1999	1.05	1999	3%		
2000	0.24			2000	1.05	2000	3%	2000	0.20
2001	0.24			2001	1.05/.55	2001	3%	2001	0.20
2002	0.24			2002	1.05/.55	2002	4%	2002	0.20
2003	0.22			2003	1.05/.55	2003	4%	2003	0.20
2004	0.21			2004	1.05/.55	2004	3%	2004	0.30
2005	0.20			2005	1.05/.55	2005	3%	2005	0.30
2006	0.17			2006	1.05/.55	2006	4%	2006	0.35
2007	0.18			2007	1.05/.55	2007	4%	2007	0.45
2008	0.19			2008	1.05/.55	2008	4%	2008	0.50
2009	0.225			2009	1.05/.55	2009	4%	2009	0.50
2010	0.23			2010	1.05/.55	2010	4%	2010	0.50
2011	0.23			2011	1.05/.55	2011	4%	2011	0.65
2012	0.225			2012	1.05/.55	2012	4%	2012	0.65
2013	0.225	2013	0.035	2013	1.05/.55	2013	5%	2013	0.65
2014	0.210	2014	0.035	2014	1.05/.55	2014	5%	2014	0.65
2015	0.220	2015	0.035	2015	1.05/.55	2015	5%	2015	0.65
2016*	0.220	2016*	0.035	2016*	1.05/.55	2016	5%	2016	0.65
						2017*	5%	2017*	0.65
*Adopted		*Adopted		*Adopted		*Adopted		*Adopted	

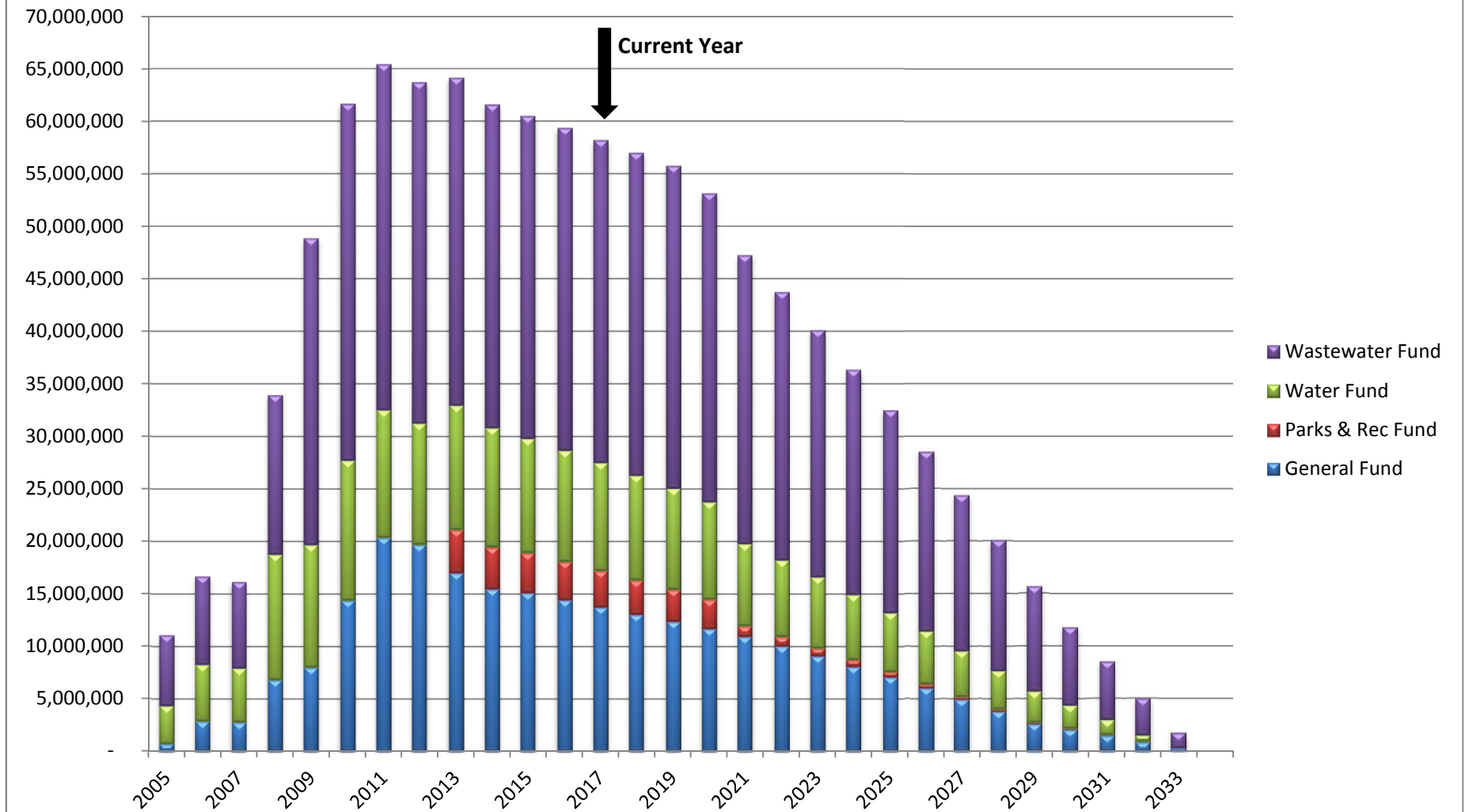
## Business License:

Tax Year	1999	2000	2001	2002	2003 to 2010	2011 to 2017
Building Contractor	0.14	0.14	0.14	0.14	0.14	0.14
Retail	0.19	0.19	0.17	0.17	0.17	0.17
Restaurant	0.19	0.19	0.19	0.17	0.17	0.17
Financial	0.19	0.19	0.19	0.17	0.17	0.17
Real Estate	0.19	0.19	0.19	0.17	0.17	0.17
Professional	0.19	0.19	0.17	0.17	0.17	0.17
Repair	0.19	0.19	0.17	0.17	0.17	0.17
Personal Serv	0.19	0.19	0.17	0.17	0.17	0.17
Business Serv	0.19	0.19	0.17	0.17	0.17	0.17
Wholesale	0.05	0.05	0.05	0.05	0.05	0.05
Rental/by Owner	0.19	0.19	0.19	0.17	0.17	0.17
Public Utilities	0.50	0.50	0.50	0.50	0.5	0.50
Hotel Motel	n/a	n/a	0.19	0.17	0.17	0.17
Massage Therapy	0.19	0.19	0.17	0.17	0.17	0.17
Direct Sellers >4k	0.19	0.19	0.17	0.17	0.17	0.17
Carnivals/Amus	n/a	n/a	500.00/yr	500.00/yr	500.00/yr	500.00/yr
Fortune-teller	n/a	n/a	n/a	n/a	500.00/yr	500.00/yr
Itinerant Vendor	250.00/yr	250.00/yr	500.00/yr	500.00/yr	500.00/yr	500.00/yr
Coliseum, Arenas	n/a	n/a	n/a	n/a	n/a	1000.00/yr
Savings & loan, credit union	n/a	n/a	n/a	n/a	n/a	50.00/yr
Photographer-non VA local						30.00/yr
Manufacturer	0	0	0	0	0	0
	\$10 min	\$10 min	\$20 min	\$20 min	\$20 min	\$20 min

## UTILITY RATES

History of Utility Rates (Rates Per 1,000 gallons)											
	FY 08	FY 09		FY 10	FY 11		FY 12	FY 14	FY 15	FY 16	FY 17
Water Tiers			Water Tiers			Water Tiers					
1K -6K	\$3.78	\$4.35	1K -5K	\$4.52	\$5.65	1K -5K	\$5.93	\$6.35	\$6.16	\$6.16	\$6.34
6K - 12K	\$5.04	\$5.79	5K - 10K	\$6.03	\$7.53	5K - 10K	\$7.91	\$8.46	\$8.21	\$8.21	\$8.46
12K - 18K	\$6.30	\$7.24	10K - 15K	\$7.53	\$9.41	10K - 15K	\$9.54	\$10.21	\$9.90	\$9.90	\$10.20
18K+	\$7.56	\$8.69	15K - 20K	\$9.04	\$11.30	15K - 20K	\$11.35	\$12.15	\$11.79	\$11.79	\$12.14
			20K - 100K	n/a	\$13.18	20K - 50K	\$14.18	\$15.17	\$14.71	\$14.71	\$15.15
			100K - 200K	n/a	\$14.18	50K - 100K	\$16.18	\$17.31	\$16.79	\$16.79	\$17.29
			200K - 500K	n/a	\$15.18	100K - 150K	\$18.18	\$19.45	\$18.87	\$18.87	\$19.44
			500K+	n/a	\$23.18	150K - 200K	\$20.18	\$21.59	\$20.94	\$20.94	\$21.57
						200K - 250K	\$22.89	\$24.59	\$23.85	\$23.85	\$24.57
						250K - 300K	\$24.98	\$26.73	\$25.93	\$25.93	\$26.71
						300K - 350K	\$26.98	\$28.87	\$28.00	\$28.00	\$28.84
						350K - 4000K	\$28.98	\$31.01	\$30.08	\$30.08	\$30.98
						400K - 450K	\$30.98	\$33.15	\$32.16	\$32.16	\$33.12
						450K - 500K	\$35.98	\$38.50	\$37.35	\$37.35	\$38.47
						500K - 550K	\$40.98	\$43.85	\$42.53	\$42.53	\$43.81
						550K - 600K	\$45.98	\$49.20	\$47.72	\$47.72	\$49.15
						600K+	\$50.98	\$54.55	\$52.91	\$52.91	\$54.50
Wastewater	\$7.61	\$8.38	Wastewater	\$8.72	\$10.12	Wastewater	\$11.84	\$14.21	\$13.78	\$14.47	\$15.19
Acct Svc Fee	\$6.00	\$6.00	Acct Svc Fee	\$20.00	\$30.00	Acct Svc Fee	\$30.00	\$30.00	\$30.00	\$30.00	\$30.00

## Principal Balance



## Outstanding Debt Balance

	General Fund	Parks & Rec Fund	Water Fund	Wastewater Fund	Total
2005 *	731,571		3,613,901	6,735,887	11,081,359
2006 *	2,906,550		5,368,832	8,389,608	16,664,990
2007 *	2,783,945		5,155,372	8,225,247	16,164,564
2008 *	6,825,223		11,941,102	15,181,455	33,947,780
2009 *	8,013,776		11,688,002	29,185,840	48,887,618
2010 *	14,398,021		13,326,424	33,961,215	61,685,660
2011 *	20,392,196		12,136,799	32,925,934	65,454,929
2012 *	19,719,736		11,542,780	32,478,836	63,741,352
2013 *	17,010,157	4,109,397	11,864,911	31,190,323	64,174,788
2014 *	15,492,391	3,966,070	11,370,000	30,798,034	61,626,495
2015 *	15,110,860	3,806,070	10,885,000	30,722,738	60,524,668
2016	14,452,523	3,630,864	10,580,000	30,722,738	59,386,125
2017	13,764,531	3,454,735	10,278,500	30,722,738	58,220,504
2018	13,054,394	3,278,606	9,962,000	30,722,738	57,017,738
2019	12,402,483	3,027,017	9,630,500	30,722,738	55,782,738
2020	11,712,485	2,778,515	9,284,000	29,389,546	53,164,546
2021	10,957,486	1,010,014	7,827,500	27,485,337	47,280,337
2022	10,047,949	886,051	7,306,000	25,524,321	43,764,321
2023	9,094,333	756,167	6,764,500	23,505,695	40,120,695
2024	8,101,178	625,822	6,203,000	21,423,629	36,353,629
2025	7,093,944	494,556	5,621,500	19,282,277	32,492,277
2026	6,047,172	362,828	5,010,000	17,060,768	28,480,768
2027	4,955,860	230,640	4,358,500	14,768,212	24,313,212
2028	3,820,470	177,530	3,672,000	12,388,694	20,058,694
2029	2,630,540	123,960	2,950,500	9,926,277	15,631,277
2030	2,076,533	94,467	2,199,000	7,375,000	11,745,000
2031	1,503,446	64,054	1,417,500	5,465,000	8,450,000
2032	902,743	32,257	605,000	3,465,000	5,005,000
2033	300,000			1,375,000	1,675,000
2034					

\* Note 5 CAFR

Other amounts based on loan  
amortization schedule.

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## **FY 2018 BUDGET – UTILITY CHARGEBACK WHITE PAPER**

### **Description**

The Utility Chargeback provides a means of assessing the Water and Wastewater funds for the cost of the administrative resources they consume. Specifically, the Water and Wastewater uses General Fund administrative resources in the areas of Human Resources, Finance, and Public Works Administration. Furthermore, Public Works Maintenance provides significant support for water and sewer line maintenance, replacement, and repairs; emergency call-out for water line breaks and sewer back-ups; and ongoing inspection of new and existing lines. Public Works Engineering is responsible for planning, reviewing, and inspecting the installation of new utility infrastructure within the Town limits. Without these resources, the Utility funds would need to contract out or maintain their own in-house resources for administrative and infrastructure services.

Although the chargeback allocates costs to the Utility funds, it preserves an accurate personnel head count based on departmental reporting structure. For example, PW Maintenance workers help maintain utility lines and infrastructure; however, they report to the Maintenance Superintendent rather than the Water or Wastewater Superintendent. Similarly, administrative Finance Staff report through the Director of Finance and collaborate daily with other Finance Staff, so the personnel are based in Finance although they conduct work on behalf of all three funds.

### **How is the FY18 Utility Chargeback Calculated?**

Each administrative office uses the unit of activity that best represents the workload generated from the Utility funds. The following summary lists the components of the chargeback:

**Administration, including Legal (non-Human Resource activities)** – no chargeback assessed

**Administration – Human Resources** – Based on employee head count between funds, totaling \$25,000

**Finance** – Based on budget percentages between funds, totaling \$283,000

**Information Technology** – no chargeback assessed

**Police** – no chargeback assessed

**Public Works** – Based on allocation of time and activity between funds, totaling \$888,000

**Community Development** – no chargeback is assessed

**Town Hall Facilities** – Based on facility use percentages between funds, totaling \$17,000

**Utility Billing Software** – Based on cost percentages between funds, totaling \$5,270

**Utility Usage** – Reduce chargeback by cost of utility usage at facilities, totaling <\$5,762>

**Total FY18 Chargeback** – \$1,203,550

### **Administrative Efficiencies**

The use of a chargeback provides administrative efficiencies by sharing specialized resources between funds. This is especially important to small governments where many technical areas only require one staff member. For example, the employment of one technically proficient Payroll Technician can support to all three funds in a streamlined manner.

In addition, the annual chargeback allows staff to perform an analysis to determine a reasonable cost structure one time per year. This process results in staff savings of about 100 hours per year by reducing recurring accounting activities needed to allocate payroll and benefit payments and prepare complex reconciliations for the external auditors.

### **Change in Budget and Financial Reporting Presentation for FY18**

In the past, the Town presented the Utility Chargeback as *revenue* in the General Fund and *expense* in the Utility funds. Unfortunately, this process has a number of drawbacks:

- The presentation of Chargeback as General Fund revenue overstates the General Fund revenue and budget.
- Inclusion of Utility Fund related personnel costs with the General Fund departmental expenditures, overstates the General Fund expenditures and budget.
- GFOA Award Comment for FY14 CAFR: *The transfer for administrative charge backs- Reimbursement should not be displayed in the financial statements as transfers. The disclosure makes it appear as though reimbursements are reported as transfers. Reimbursements should be treated as a reduction to the originally booked expense/expenditure and therefore would not be reported as an item in the external financial statements. [GASB-S34:112b(2); GAAFR, page 53; eGAAFR, pages 66-67]*
- Staff discussed best practices and GASB requirements with the Town's auditor. RFCA recommended use of contra-expenditure accounts, rather than a revenue transfer, to better reflect GF departmental expenditures and eliminate overstatement of GF revenue. No changes were recommended with the enterprise funds as these expenses are properly disclosed as personnel costs.

As a result of input from GFOA and the Town's auditors, the Town has made the following changes in presentation of the Chargeback as part of the Proposed FY 2018 Budget:

- Accounting Changes (recommendations in red):
  - GF Revenue:  
**Recommended Change: Eliminate the revenue transfer; eliminates inflation of GF revenue budget as a result of internal activities per guidance from GASB 34.**
  - GF Expenditures:  
**Recommended Change: Adjust departmental personnel categories via expenditure offset (a.k.a. contra expense account) for utility related costs; better reflects true GF costs and does not overstate GF budget.**
  - UF Revenue:  
Not applicable. **No change needed.**
  - UF Expense:  
Chargeback expense properly reflects all personnel related costs to support utility enterprise functions. **No change needed.**



- Example of New Line Item:

The “expenditure offset” (or “contra-expense”) is shown as a negative line in each respective General Fund Department. Below is the example from Administration for the Chargeback of Human Resources activities in support of the Utility Funds:

#### OPERATING BUDGET EXPENDITURES

		FY 2016	FY 2017		FY 2018 Request		
		Actual	Current Budget	Estimated Actual	Dept Head Request	Town Manager Proposed	Town Council Adopted
<b>Fund # 100</b>	<b>GENERAL FUND*</b>						
<b>100-4012100</b>	<b>ADMINISTRATION</b>						
100-4012100-1100	ADMINISTRATION STAFF	731,648	744,115	743,215	759,505	759,505	(
100-4012100-1200	OVERTIME-ADMINISTRATION	9,625	5,500	5,500	5,500	5,500	(
100-4012100-2100	SOCIAL SECURITY TAX	55,761	54,469	53,989	56,204	56,204	(
100-4012100-2200	RETIREMENT	59,291	49,677	50,331	51,841	51,841	(
100-4012100-2300	HEALTH INSURANCE	86,182	93,616	93,616	110,272	110,272	(
100-4012100-2400	LIFE INSURANCE	7,084	8,323	8,432	8,651	8,651	(
100-4012100-2500	LONG TERM DISABILITY INSURANCE	0	2,208	2,208	2,208	2,208	(
100-4012100-2550	HYBRID DISABILITY PROGRAM	365	382	432	445	445	(
100-4012100-2700	WORKERS COMP INSURANCE	451	545	492	563	563	(
100-4012100-2800	DEFERRED COMP MATCH	13,120	13,120	13,120	13,120	13,120	(
	<b>TOTAL PAY &amp; BENEFITS</b>	<b>963,527</b>	<b>971,955</b>	<b>971,335</b>	<b>1,008,309</b>	<b>1,008,309</b>	(
100-4012100-2999	<b>LESS UTILITY CHARGEBACK</b>	<b>0</b>	<b>(16,556)</b>	<b>(16,556)</b>	<b>(24,993)</b>	<b>(24,993)</b>	
	<b>NET PAY &amp; BENEFITS</b>	<b>963,527</b>	<b>955,399</b>	<b>954,779</b>	<b>983,316</b>	<b>983,316</b>	(

### Conclusion

Starting in FY 2018, the Budget presentation will no longer show the Utility Chargeback as General Fund revenue transfer, but instead as an offset to the total department’s pay and benefit category. Staff revised the budget display for FY16 and FY17 to reflect the FY18 change and facilitate accurate year-to-year comparisons.

ENTERPRISE FUND LABOR CHARGE BACK ANALYSIS TOWN MANAGER PROPOSED (includes enhancements)						
FY18 BUDGET TOWN MANAGER PROPOSED (includes enhancements)						
3/27/2017						
COMPENSATION		GENERAL FUND	WATER FUND	WASTEWATER FUND		Split explanation and general duties
<u>Administration</u>						
HR Specialist		80%	10%	10%		Based on number of employees numbers; handles all recruitment and personnel matters
HR Asst - NEW		80%	10%	10%		Based on number of employees numbers; handles all recruitment and personnel matters
Administration Total		\$ 99,973	\$ 12,497	\$ 12,497		
<u>Finance</u>						
Assistant Director of Finance		60%	20%	20%		Based on percentage of expenditures per fund; manages customer service staff, utility billing, computer systems, etc.
Accounts Payable and Payroll Technician		60%	20%	20%		Based on percentage of expenditures per fund; handles all payroll for all employees, supports accounts payable process, manages other expenditures control
Finance Associate		60%	20%	20%		Based on percentage of expenditures per fund; customer service handling utility bill payments, questions, walk-in customers, and utility fund reports to mgmt and Council
Utility Billing Specialist		0%	50%	50%		Based on two utility funds; work is focused on utility billing, reconciliation, notice, payment assistance, consumption reports, and inter-departmental support with meter technician and maintenance team
Accounting Manager		60%	20%	20%		Based on percentage of expenditures per fund; responsible for proper accounting, budget development, Comprehensive Annual Financial Report, debt management, and annual audit of all three funds
Budget Specialist		60%	20%	20%		Based on percentage of expenditures per fund; responsible for budget preparation, budget adjustments, review of expenditures and tracking budget allocations
Accounts Payable Specialist (Part-Time)		60%	20%	20%		Based on percentage of expenditures per fund; Manages all invoices, purchase orders, requisitions, and reimbursements for all employees and funds
Procurement Specialist (Part-Time)		60%	20%	20%		Based on percentage of expenditures per fund; responsible for all procurement across all funds, reviews POs, finds competitive pricing and savings on operations and services for all funds
Finance Total		\$ 288,343	\$ 141,406	\$ 141,406		

ENTERPRISE FUND LABOR CHARGE BACK ANALYSIS TOWN MANAGER PROPOSED (includes enhancements)						
FY18 BUDGET TOWN MANAGER PROPOSED (includes enhancements)						
3/27/2017						
<b>COMPENSATION</b>		<b>GENERAL FUND</b>	<b>WATER FUND</b>	<b>WASTEWATER FUND</b>		<b>Split explanation and general duties</b>
<b><u>PW Admin</u></b>						
Director of Public Works		33%	33%	33%		Evenly split across all three funds due to nature of activities and responsibility for Maintenance, Capital Engineering, Water and Wastewater
Assistant Director of Public Works		33%	33%	33%		Evenly split across all three funds due to nature of activities and responsibility for Maintenance, Capital Engineering, Water and Wastewater
Public Works Executive Assistant		100%	0%	0%		Evenly split across all three funds due to support of Director who is responsible for all three funds (this was intended to be included in the Chargeback but was inadvertently left out of the calculation). At this time, it is 100% in the General Fund, but in the future would be revised to match the split given to the Director of Public Works
Project Coordinator - Public Works		33%	33%	33%		Evenly split across all three funds due to support of ongoing activities in all three funds - coordinating maintenance activities and response to needs in utility funds
<b>PW Admin Total</b>		<b>\$ 188,693</b>	<b>\$ 124,096</b>	<b>\$ 124,096</b>		
<b><u>PW Engineering</u></b>						
Engineering Manager		33%	33%	33%		Evenly split across all three funds due to direct involvement in long-term capital projects and engineering for streets, sidewalks, water lines, sewer lines, and site development review
Inspector (x2)		50%	25%	25%		Inspector of site development, including general fund infrastructure (streets, sidewalks, stormwater mgmt) and utility infrastructure (water and sewer lines); supports emergency repairs to water and sewer lines, snow removal, and facility support
Engineering Technician (x2)		33%	33%	33%		Provides support to capital engineering and engineering manager with plans review, inspection services, coordination with site developers, creation and use of Geographic Information Systems (GIS), creation of maps, deed research, and use analysis
<b>PW Engineering Total</b>		<b>\$ 167,855</b>	<b>\$ 120,729</b>	<b>\$ 120,729</b>		

ENTERPRISE FUND LABOR CHARGE BACK ANALYSIS TOWN MANAGER PROPOSED (includes enhancements)							
FY18 BUDGET TOWN MANAGER PROPOSED (includes enhancements)							
3/27/2017							
COMPENSATION			GENERAL FUND	WATER FUND	WASTEWATER FUND		Split explanation and general duties
PW Maintenance							
Maintenance Superintendent			50%	25%	25%		Responsible for all maintenance activities across all three funds - primarily related to streets, facilities, and other general fund infrastructure; also provides maintenance to water and sewer lines, emergency response to water line breaks and sewer backups, and facility support at water and wastewater plants and infrastructure
General Maintenance (GF only) (x4, 3 Full-Time and 1 Part-Time)			100%	0%	0%		Provide maintenance support to general infrastructure of Town. Most of responsibilities are at General Fund-supported facilities, such as Town Hall, Fireman's Field, Maintenance Building, and infrastructure (streets, sidewalks, paths).
General Maintenance (x6)			50%	25%	25%		Provide maintenance support to infrastructure of the Town, including general infrastructure, utility infrastructure, and facilities/plants. This team includes the primary responders to water line breaks, sewer backups, and emergency facility needs. Responsibilities cross all three funds.
Utility Technician / Meter Technician			0%	50%	50%		Utility technician handles all utility meter readings, meter replacements, meter and usage analysis, proactive leak detection activities, and all other meter-related needs. All activities are utility fund supported. Coordinates with Utility Billing Specialist for handling late accounts and utility cut-off notifications.
Overtime			50%	25%	25%		Overtime is necessary for after-hours response, emergency response, snow removal, and other activities beyond the regular 40-hour work week. Generally split between all three funds.
PW Maintenance Total			\$ 626,755	\$ 194,671	\$ 194,671		
Grand Total Personnel Distribution			\$ 1,371,619	\$ 593,398	\$ 593,398		

ENTERPRISE FUND LABOR CHARGE BACK ANALYSIS TOWN MANAGER PROPOSED (includes enhancements)							
FY18 BUDGET TOWN MANAGER PROPOSED (includes enhancements)							
3/27/2017							
COMPENSATION		GENERAL FUND	WATER FUND	WASTEWATER FUND		Split explanation and general duties	
Town Hall Loan		\$ 51,733	\$ 8,622	\$ 8,622			
Utility Billing Software		\$ -	\$ 2,635.00	\$ 2,635.00		Cost of software module for utility billing only	
Less Town Water Usage		\$ -	\$ (2,881.00)	\$ (2,881.00)		Deduction for use of water/sewer at Town facilities: Town Hall, Maintenance	
Total Non-Salary Chargeback		\$ 51,733	\$ 8,376	\$ 8,376			
		General Fund	Water	Wastewater	TOTAL CHARGEBACK:		
GRAND TOTAL		\$ 1,423,352	\$ 601,774	\$ 601,774		\$ 1,203,548.75	
Other Staff Not Included in Chargeback:							
Director of Finance							
Town Manager							
Assistant Town Manager							
Town Attorney							
Police Department							
Information Technology							
Community Development							

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## FY 2018 BUDGET – BEST PRACTICES FOR TRANSFER OF REVENUE BETWEEN FUNDS

### **Introduction**

The purpose of this report is to provide additional information regarding accounting standards and best practices to guide transfers between the Governmental and Enterprise Funds. A fund is a separate fiscal and accounting entity with its own self-balancing set of accounts. The following chart provides an overview of Town funds:

<b>Primary Funds</b>	<b>Sub-Funds</b>	<b>Description</b>
Governmental Funds:		Used to account for tax-supported governmental activities
	General Operating Fund	Chief operating fund of a local government
	Special Parks & Recreation Fund	Used to account for the proceeds of the Fireman's Field Tax District which are legally restricted per Town Code Chapter 74, Article VIII
	GF Capital Projects Fund	Used to account for the acquisition or construction of major capital facilities or infrastructure
Enterprise Funds:		Used to account for a government's business-type activities
	Water Operating Fund	Operating fund of the Town's public water utility supported by fees charged to external users
	WF Capital Projects Fund	Used to account for the acquisition or construction of water utilities infrastructure
	Wastewater Operating Fund	Operating fund of the public wastewater treatment utility supported by fees charged to external users
	WWF Capital Projects Fund	Used to account for the acquisition or construction of wastewater treatment utilities infrastructure

### **Accounting, Financial Reporting & Auditing Standards**

Virginia local governments are required to adhere to explicit accounting standards. In accordance with Virginia Code §15.2-2509, the Auditor of Public Accounts (APA) establishes basic accounting and financial reporting requirements for Virginia local governments by means of its *Uniform Financial Reporting Manual*. This manual instructs local governments to prepare financial statements in accordance with generally accepted accounting principles (GAAP) as

established by the Governmental Accounting Standards Board (GASB). Further professional guidance on the application of GAAP for governments is available in the book *Governmental Accounting, Auditing and Financial Reporting* published by the Government Finance Officers Association (GFOA). Furthermore, Virginia Code §15.2-2511 requires every locality to undergo an annual audit by a certified public accountant each year. Auditors are required to conduct the audit in accordance with generally accepted auditing standards as outlined in the *Government Auditing Standards* by the American Institute of Certified Public Accountants.

### **Enterprise Fund Definition and Philosophy**

GAAP requires governments to use Enterprise Funds to account for “business-type activities” or activities similar to those found in the private sector. Business-type activities include services primarily funded through user charges (voluntary exchange transactions between willing buyers and sellers). In contrast, governmental-type activities are primarily funded through taxation (non-exchange, legally mandated involuntary transactions between citizens and the government). As with private business models, there is a basic expectation that an enterprise fund should be self-sustaining, relying on rates and fees without subsidies given to or received from other funds or entities. Virginia Code §15.2-2119 requires fees and charges for public water and sewer services to be “practicable and equitable.”

Best practices support setting public utility rates and fees in a manner to maintain level of service, cover operating expenses, fund capital outlays and infrastructure reinvestment, retire debt and support adequate reserve levels.

- The Town’s Fiscal Policy Sec. III (c) Revenue Management provides the following guidance: *The town, where practicable, will institute user fees and charges for specialized programs and services. Rates will be established to recover operational as well as overhead or indirect costs and capital or debt service costs, and the town will periodically review user fee charges and related expenditures to determine if pre-established recovery goals are being met.*
- The Town’s Fiscal Policy Sec. V (c) Debt and Cash Management provides the following guidance: *The town will annually calculate target debt ratios for direct, non-revenue based debt that is dependent on the general fund for the payment of debt service. So long as payments from the general fund to the enterprise fund are not necessary to make up shortfalls in the enterprise fund, enterprise fund debt will not be included in the calculation of the debt ratios. The town’s debt capacity shall be maintained within the following primary goals:*
  1. *Debt service expenditures as a percentage of general fund expenditures should not exceed 15%.*
  2. *Bonded debt of the town shall not exceed 2.0% of the total assessed value of taxable property.*
- The Town’s Fiscal Policy Sec. VI (a) Reserve Funds Management provides the following guidance: *The general fund unassigned fund balance should be maintained at a minimum of \$3 million or 30% of total general fund revenues, whichever is greater, given that the water and sewer enterprise funds are self-supporting and the enterprise fund balances are maintained at a substantial level.*



### **Transfer versus Allocation of Expenses**

A transfer occurs when money is moved from one fund to another. This may take the form of (1) an appropriation with no expectation of repayment, or (2) a loan with an expectation of repayment. As both cases deal with moving money between entities for purposes unrelated to the original fund, approval should be granted by the governing body. Such approval should be accompanied by justification of why this transfer is necessary and appropriate.

A transfer should not be confused with the Utility Chargeback which is an allocation of money from one fund to another to pay legitimate reimbursement costs for services provided from the General Fund. See the Utility Chargeback White Paper for more information. It should be noted that the chargeback is a business decision and the annual budget process provides an excellent opportunity for the governing body to review the allocation strategy.

### **Transfers From the General Fund to the Utility Funds**

During the FY17 Budget process, Council asked staff to research whether it is advisable to apply meals tax revenue to the Town's debt incurred for water and sewer facilities. Attached are the responses from the Town Attorney, the Town's financial advisor (Davenport), the Town's utility rate consultant (MFSG) and the Town's auditor (Robinson, Farmer, Cox and Associates). In short, the Town Attorney's legal review found "...it is permissible to supplement Utility Funds with General Revenue Funds including Meals Tax Revenue." While Davenport, MFSG and the auditor did not offer a legal opinion suggesting this was best handled by the Town Attorney, they indicated best practices support a fully self-sustaining enterprise fund. The following are some key points they made regarding transfers from the General Fund to the Utility Funds:

- A community is not required to recover total cost of services via user charge and, therefore, tax revenues may be used to supplement enterprise fund activity. (MFSG)
- It is not advisable to count tax transfers toward utility cost of service rate calculations but they may be directed toward augmented asset rehabilitation and replacement. (MFSG)
- Creditors may view meals tax revenues as unpredictable and less stable than user charges. This may result in higher interest rates on debt. (MFSG)
- Cost of service principles in which user charges pay for the cost of service are typically used for enterprise funds. Tax transfers/subsidies shift the burden to non-users who receive no direct benefit of the service. (MFSG)
- Credit rating agencies may not look favorably on the practice of transfers as is seen as simply taking from one fund and placing it into another. This could lead to higher interest rates on debt as the utility is not seen as self-supporting and also places pressure on the General Fund for that loss of revenue. (Davenport)
- GASB requires tax revenue to be reported in the General Fund and any support to the enterprise fund shown as a Transfer Out. (Robinson, Farmer, Cox Associates)

It is difficult to predict how credit rating agencies may look upon General Fund support of an Enterprise Fund as their role is to review and opine on a government's credit worthiness rather than provide management advice or proscribe policy. Therefore, it is recommended that the governing body carefully review the implications of transfers and document justification for this decision. It would be particularly helpful to tie support to specific activities. For example, (1) there may be specific economic development goals that warrant General Fund support of utility infrastructure, or (2) expansion of general government facilities may necessitate additional utility

infrastructure, or (3) subsidies from the General Fund may be needed to fully support debt payments associated with large infrastructure improvements and regulatory mandates due to economies of scale associated with a small utility system.

### **Conclusion**

Governmental accounting standards and cost of service principles establish a basic expectation that Utility Enterprise Funds will be self-supporting whereby user charges support the cost of providing service. Under certain circumstances, the governing body may determine it is appropriate to transfer General Fund revenues to subsidize an Enterprise Fund. However, a careful review of the needs, justification, and timeline of the specific case should be undertaken. Implications to the General Fund's structural balance and fiscal policy compliance, as well as implications to the Enterprise Funds' creditworthiness, should be fully considered before Town Council approves this type of policy directive.

FY 2018 Budget Questions

Number	Date	Council Member	Question	Management Response	Response	Department	Item Name or Fund Number	FY 18 Amount
1	3/23/2017	Mayor Fraser	What is the probability/likelihood of us realizing each of the projected water and sewer availabilities presented in the proposed budget? We know that the Mayfair residential is at 100% likelihood due to the arrangement we have with them, however, how real are each of the other projections and why? Also, which of our projected availabilities in FY16 and FY17 did not materialized?	<p>The Director of Public Works worked with the Assistant Town Manager and Director of Community Development to determine what development projects are most likely to come to fruition. Once the list was compiled, PW added the potential conections needed to match the list of development projects. This was our best estimate at the time of development of the projection. Community development offered the following comments: For commercial and industrial:</p> <ul style="list-style-type: none"><li>• As of today we only have 1 availability for Mayfair industrial in 2017. The reason being that 4 of the lots are for storage buildings and will most likely only do one availability but we haven't received any plans. I would expect 4 in 2018 and 4 in 2019 with possibly 4 lots not having utilities.</li><li>• I think the child care might come in in 2017. They will have an approved site plan within the month. If they are in a hurry they will pay the availability sooner rather than later.</li><li>• Browning Office is in review and almost complete I would expect them to start construction in early 2018.</li></ul> <p>For residential:</p> <ul style="list-style-type: none"><li>• Village Case will not happen in 2017. I would change it to 10 in 2018, 10 in 2019, and 8 in 2020.</li><li>• I would also move the Ball development up a year. 12 in 2018 and 8 in 2019.</li><li>• Not sure about the 6 availabilities for Gateway. They are much more interested doing commercial on that site which would limit the availabilities (although if a different meter size would provide potentially similar revenue).</li><li>• Vineyard Square pushed out 1-2 years based on current status of the project.</li></ul> <p>See Attachment for Updated Assumptions</p>	Patrick Sullivan/ Alex Vanegas	Water Fund	Water Availabilities Fee 501-3810000-0000	\$2,211,847
2	3/23/2017	Mayor Fraser	Same question-- Split out to discuss Wastewater Fund	<p>The Director of Public Works worked with the Assistant Town Manager and Director of Community Development to determine what development projects are most likely to come to fruition. Once the list was compiled, PW added the potential conections needed to match the list of development projects. This was our best estimate at the time of development of the projection. Community development offered the following comments: For commercial and industrial:</p> <ul style="list-style-type: none"><li>• As of today we only have 1 availability for Mayfair industrial in 2017. The reason being that 4 of the lots are for storage buildings and will most likely only do one availability but we haven't received any plans. I would expect 4 in 2018 and 4 in 2019 with possibly 4 lots not having utilities.</li><li>• I think the child care might come in in 2017. They will have an approved site plan within the month. If they are in a hurry they will pay the availability sooner rather than later.</li><li>• Browning Office is in review and almost complete I would expect them to start construction in early 2018.</li></ul> <p>For residential:</p> <ul style="list-style-type: none"><li>• Village Case will not happen in 2017. I would change it to 10 in 2018, 10 in 2019, and 8 in 2020.</li><li>• I would also move the Ball development up a year. 12 in 2018 and 8 in 2019.</li><li>• Not sure about the 6 availabilities for Gateway. They are much more interested doing commercial on that site which would limit the availabilities (although if a different meter size would provide potentially similar revenue).</li><li>• Vineyard Square pushed out 1-2 years based on current status of the project.</li></ul> <p>See Attachment for Updated Assumptions</p>	Patrick Sullivan/ Alex Vanegas	Wastewater Fund	Wastewater Availabilities Fee 502-3810000-0000	\$3,097,420
3	3/23/2017	Mayor Fraser	What controls we have in place to measure the time each General Fund employee work on projects in the Utility Enterprise Fund?	The Town uses a work order software system that captures tasks, type of activity, and hours spent. The Town is in discussion with the developer of the system to see if individual hours, costs, and activities can be tracked and reported out. Staff will continue to look into this to provide a more exact figure of staff time spent on GF, WF, and WWF activities.	Danny Davis	Utility Fund	Utility Chargeback	\$1,203,550

FY 2018 Budget Questions

Number	Date	Council Member	Question	Management Response	Response	Department	Item Name or Fund Number	FY 18 Amount
4	3/23/2017	Mayor Fraser	Why do we not transfer into the Utility Enterprise Fund all General Fund employees that are 100% charged back from the Utility Enterprise? I noticed from the chargeback data presented for FY17, there were 7 employees of the General Fund that had 100% of their work in the Utility Enterprise Fund. If 100% of their work is in the Utility Enterprise they should be transferred to the Water or Sewer Fund.	<p>The short answer is administrative efficiencies and estimated savings of 100 staff hours per year. The current legacy payroll system lacks the sophistication needed to fully manage employee splits. In addition, manual computations to split specific employee costs would be required for every AP payment to various benefit providers for each billing period (separate vendor payments: VRS, Life, health insurance, worker's compensation, deferred compensation, tax withholding, hybrid disability, etc.). Also complex payroll reconciliations are required for the annual audit and worker's compensation audit and these splits make it difficult to tie individual salary lines back to IRS 941 data. Therefore, we were advised to prepare an annual chargeback analysis to allocate personnel costs between departments/funds via one monthly journal entry. Another way to look at this is the chargeback allows us to perform an analysis to determine a reasonable cost structure one time per year versus management on every payroll and every vendor payment for every impacted employee.</p> <p>Staff has provided an updated Chargeback Analysis - at this time, only 2 employees are 100% funded by the Utility Enterprise Funds. All other employees calculated in the chargeback split their time between General Fund and the Utility Enterprise Funds (see page 47 of the Agenda Packet for the March 30, 2017 Budget Work Session for memo and descriptions)</p>	Liz Krens	Utility Fund	Utility Chargeback	\$1,203,550

# Water and Sewer Utility Updated Availabilities

Project	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
<b><u>Commercial / Industrial</u></b>						
Catoctin Corner	4 - 3/4"	1 - 1"	2 - 3/4"	2 - 1"		9
Mayfair	1 - 5/8"	4 - 5/8"	4 - 5/8"			9
Vineyard Square			3 - 5/8"			3
Daycare	1 - 3/4"					1
Shea's Warehouse		1 - 5/8"				1
Browning Office		1 - 3/4"				1
Chapman			2 - 3/4"			2
O'Toole				1 - 5/8", 1 - 3/4", 1 - 2"		3
Shoppes at Main & Maple					1 - 3/4"	1
Stupar					2 - 3/4"	2
<b><u>Residential</u></b>						
Infill Residential	3 - 5/8"					3
Mayfair	50- 5/8"	50- 5/8"	50 - 5/8"	57- 5/8"		207
Village Case		10 - 5/8"	10 - 5/8"	8 - 5/8"		28
Morgan Meadows		5- 5/8"				5
Vineyard Square			1 - 2"			1
Ball Property		12 - 5/8"	8 - 5/8"			20
Stupar					Unknown	Unknown
<b>Total Availability Revenue</b>	<b>\$3,267,784</b>	<b>\$4,072,444</b>	<b>\$4,214,506</b>	<b>\$3,811,997</b>	<b>\$213,093</b>	<b>\$15,579,824</b>